



October 7, 2009

Memorandum

To: Members of the Board

From: *J. Ryan*
Julia E. Ryan, Assistant Director

Through: *Wendy M. Payne*
Wendy M. Payne, Executive Director

Subj: Reporting by Federal Entities that Primarily Apply Standards Issued by the
Financial Accounting Standards Board – **Tab H**¹

MEETING OBJECTIVE

The purpose of this 75-minute session is to approve the updated project plan and detailed project approach so that staff may finalize the research phase of this project and work toward developing an exposure draft that addresses all five project objectives. Staff requests your specific feedback on its proposed detailed project approach in Attachment A, pages 3 and 4.

BRIEFING MATERIAL

Immediately following this transmittal memo, you will find the following attachments and enclosures:

- Attachment A**, beginning on page 3 of this memo, contains a detailed project approach;
- Attachment B**, beginning on page 5 of this memo, contains an updated overall project plan;
- Attachment C**, beginning on page 9 of this memo, contains background and history of the project, including key decisions since the project's inception in January 2006;
- Enclosure 1** contains the minutes from the September 9, 2009, Roundtable on Reporting by Federal Entities that Primarily Apply Standards Issued by the Financial Accounting Standards Board;
- Enclosure 2** contains the results of the Cost / Burden Survey on the use of FASB GAAP by federal entities;
- Enclosure 3** contains a summary of a September 22, 2009, meeting with Export-Import Bank;

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

- Enclosure 4** contains a September 30, 2009, letter from Bonneville Power Administration; and,
- Enclosure 5** contains a copy of the invitation to the September 9, 2009, roundtable.

You may electronically access all of the briefing material at <http://www.fasab.gov/meeting.html>. In addition, project papers from prior meetings may be downloaded from the active project page at <http://www.fasab.gov/projectsgaap.html>.

NEXT STEPS

November 2009 – April 2010

- Research characteristics and user needs of federal entities that primarily apply FASB standards

April 2010 Meeting

- Present a draft exposure draft for board member review

BACKGROUND

At the February 2008 meeting, deliberations revealed that the sense of the board is that no entities will be required to convert to full FASAB GAAP at this time. The board also indicated that it was comfortable with including two sources of GAAP in the consolidated financial statements except where it affects intragovernmental eliminations. Members did not vote to adopt the governmental-type and business-type structure developed by staff. The board requested that staff meet with the sponsor workgroup to determine which line items are significant in the FASB vs. FASAB intragovernmental reconciliation and develop an exposure draft that proposes a note disclosure for those significant reconciling items only. The other options considered would be included in the basis for conclusions. The issue of budgetary reporting for entities reporting under FASB GAAP would be deferred until the matter is resolved at the governmentwide level.

However, during the deliberations on SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, the board clarified that the decisions made at the February meeting were only intended to be temporary. Therefore, staff plans to revisit all of those prior decisions as this project continues.

See Attachment C for a history of the project and key decisions since its original inception in January 2006.

If you require additional information or wish to suggest another alternative not considered in the staff paper, please contact me as soon as possible. Ideally, I would be able to respond to your request for information or develop more fully the alternative you wish considered in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at 202.512.7377 or by e-mail at ranaganj@fasab.gov.

Attachments A – C
Enclosures 1 – 5

Proposed Detailed Project Approach

Additional Research

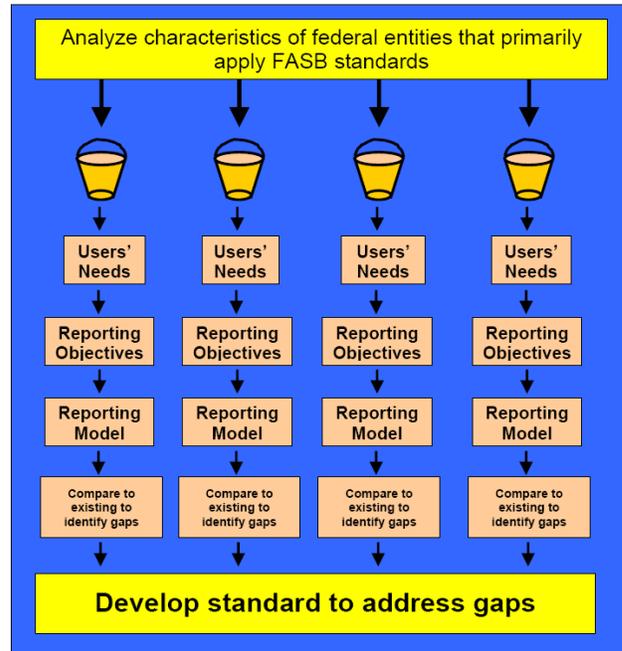
Staff proposes the following additional research to address all five project objectives discussed in the overall project plan (see page 5 of Attachment B).

1. Analyze characteristics of federal entities that primarily apply standards issued by FASB.

2. Using judgment, group like characteristics into categories or “buckets”; the characteristics will be used to develop criteria that existing and newly created agencies can apply to evaluate which bucket they belong in.

3. For each bucket, determine the following (coordinate with project managers of the federal reporting and federal entity projects, as needed, to avoid undesired overlap):

- a. the primary users’ needs (add to the inventory of user needs from the reporting model project, as deemed appropriate);
- b. the reporting objectives that are needed to satisfy those users’ needs;
- c. the appropriate reporting model to meet those users’ needs (e.g., FASAB reporting, FASB reporting, FASB plus budgetary reporting, FASB plus cost accounting and budgetary reporting, etc...);
- d. the existing reporting model; and,
- e. the gap between the existing reporting model and the appropriate reporting model.



4. Develop accounting and reporting standards to eliminate the gap between the existing reporting model and the appropriate reporting model for each bucket.

5. Align the guidance for existing and newly created entities that is contained in SFFAS 34 with the guidance for buckets (amend SFFAS 34, as deemed necessary).

6. Work with representatives from OMB, GAO, and Treasury to address consolidation issues:

- a. Consider component unit reporting model from GASB; and
- b. Consider explanatory note disclosures for differences due to FASB vs. FASAB (i.e., do eliminations have to equal zero when there are justifiable reasons for differences?)

7. Monitor IFRS developments to determine how the board would prefer to proceed for entities that will continue to primarily apply FASB standards.

In completing the above tasks, staff will utilize the extensive research conducted since this project's inception in January 2006, as deemed appropriate.

Staff does not believe that this proposed research will duplicate the work of the reporting model project since this project is focusing on a small group of reporting entities that have unique needs from the federal government as a whole. Staff will work closely with the reporting model project manager to ensure that the results of this research complement the work being undertaken as part of the reporting model project.

Community Input

Staff acknowledges the extensive community input that it has obtained through the September 9, 2009, roundtable; surveys; meetings; and other formal and informal correspondence (for example, see the minutes from the roundtable, the results of the surveys, a summary of a meeting with Export-Import Bank, and a letter from Bonneville Power Administration at Enclosures 1 – 4). Since the board has indicated that it is interested in determining whether users' needs are being met by the standalone financial reports of the federal entities that primarily apply standards issued by the FASB, staff is proposing to undertake the additional research described on the prior page in order to adequately determine if users' needs are being met. Therefore, while staff will use the information gathered in determining the characteristics of federal entities that primarily apply standards issued by the FASB, the information in Enclosures 1 – 4 is being communicated for the board's information (rather than for decision-making purposes) since primacy is being given to an analysis of users' needs.

Do you agree with staff's detailed approach?

Reporting by Federal Entities that Primarily Apply Standards Issued by the Financial Accounting Standards Board (Formerly Appropriate Source of GAAP)

PROJECT PLAN—UPDATED OCTOBER 2009

- Title:** This project is titled “Reporting by Federal Entities that Primarily Apply Standards Issued by the Financial Accounting Standards Board” (FASB). It will be referred to shorthand as “Use of FASB by Federal Entities.” This project was formerly referred to as the “Appropriate Source of GAAP” project but has been renamed to more appropriately reflect the objectives of the project.²
- Scope:** This project applies to all federal entities that primarily apply standards issued by FASB and present general purpose financial reports in conformance with Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
- Objectives:** The five primary objectives of this project are to:
- a). Address whether it is appropriate for those federal entities currently applying standards issued by FASB to continue that practice (i.e., establish whether GAAP for a federal entity permits this practice and it is therefore generally accepted)
 - b). Determine whether a newly created federal entity may apply FASB standards and, if so, under what conditions (i.e., establish criteria for new entities)
 - c). Establish requirements necessary to ensure that the stand alone federal financial reports prepared pursuant to FASB standards meet federal financial reporting objectives
 - d). Provide guidance to address the case of a federal entity consolidating information from an entity (or entities) applying FASB standards with its own FASAB based information [Note that this does not extend to providing guidance for eliminations. If needed, this can be addressed through implementation guidance or informal assistance.]
 - e). Consider any issues arising from possible transition to International Financial Reporting Standards (IFRS) by U.S. non-listed reporting entities (private companies and non-profits)

² “Appropriate Source of GAAP” was a shorthand reference. The American Institute of Certified Public Accountants (AICPA) has established that FASAB is the source of GAAP for federal governmental entities (as defined in SFFAC 2). As discussed in the “Objectives” section, 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.

Assigned staff: Julia Ranagan

Timeline: Staff will present members with an updated project plan and options for additional research at the October board meeting. The timeline will be developed based upon decisions made by the board at that meeting.

Tentative Approach: The first two objectives (a and b) were temporarily addressed in SFFAS 34. The primary purpose of SFFAS 34, which was issued on July 28, 2009, is to incorporate the hierarchy for selecting the principles used in the preparation of general purpose financial reports by federal reporting entities set forth in the AICPA Statement on Auditing Standards (SAS) No. 91, *Federal GAAP Hierarchy*, into FASAB's authoritative literature. In addition, to avoid any sudden or dramatic changes in practice for federal entities, SFFAS 34 also explicitly permits those federal entities currently applying financial accounting and reporting standards issued by FASB to continue to do so while clarifying that a federal entity that is preparing GAAP-based general purpose financial reports for the first time is required to implement FASAB standards unless, in consultation with its auditors and bodies with oversight authority, the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards.

It is important to note that the board has emphasized that the GAAP exception for federal entities that currently apply financial accounting and reporting standards issued by FASB is temporary. The board is interested in determining whether this type of reporting is meeting federal financial reporting objectives as well as user needs.

Objectives a and b would be addressed by identifying the characteristics of the different types of entities that primarily apply standards issued by FASB, grouping like characteristics, and developing standard guidance for each group as a whole. Guidance would not be developed for individual entities although there may be certain groups for which only one or two entities match the characteristics.

Objective c would be addressed by analyzing differences between the standards and developing additional guidance as needed. The following list includes some of the areas where differences have been noted between FASAB and FASB accounting and reporting:

- SFFAS 1, *Accounting for Selected Assets and Liabilities*:
 - Valuation of Investments in Treasury Securities, pars. 68-70;
- SFFAS 2, *Accounting for Direct Loans and Loan Guarantees, as amended by SFFAS 18 and 19*:
 - Valuation of liability for guarantees of principal and interest payments on loans between a non-federal lender and a non-federal borrower;

- SFFAS 3, *Accounting for Inventory and Related Property*:
 - Inventory Valuation, par. 20;
- SFFAS 4, *Managerial Cost Accounting Standards and Concepts*:
 - General Requirement for Cost Accounting, pars. 67-76;
 - Inter-entity Costs, pars. 108 and 109;
- SFFAS 5, *Accounting for Liabilities of the Federal Government*:
 - Recognition of Nonexchange Transactions, par. 24;
 - Accounting and Reporting for Pensions, Other Retirement Benefits, And Other Postemployment Benefits, pars. 56-96;
- SFFAS 6, *Accounting for Property, Plant, and Equipment (PP&E)*:
 - Valuation of Transferred PP&E, par. 31;
- SFFAS 7, *Accounting for Revenue and Other Financing Sources*:
 - Financing Imputed for Cost Subsidies, par. 73;
 - Budgetary Reporting, pars. 77-82;
- SFFAS 15, *Management's Discussions and Analysis*; and
- SFFAC 2, *Entity and Display*.

The following are some of the areas that are reported by federal entities applying FASB standards but are not addressed by FASAB standards:

- FASB SFAS 71, *Accounting for the Effects of Certain Types of Regulation*;
- FASB SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities* (regarding available-for-sale securities);
- FASB SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*;
- FASB SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FASAB has recently initiated a joint project on asset impairment and deferred maintenance); and,
- FASB SFAS 143, *Accounting for Asset Retirement Obligations*.

Since these areas are not currently addressed by FASAB, the hierarchy of accounting principles for federal entities would most likely permit the application of accounting and reporting principles issued by FASB in these areas.

This list is not exhaustive and will be further researched during the project.

Objective d would be addressed through further staff coordination with representatives from OMB, GAO, and Treasury.

Objective e would be addressed as a plan for non-listed entities emerges. At this time, there is no consensus regarding the future source of GAAP for private companies and non-profits.

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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

“Analyze and document similarities and differences that might prove helpful in developing guidance on which source of GAAP is most appropriate.” (See the box above).

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 (MCC), Office of Thrift Supervision, Pension Benefit Guaranty Corporation, Tennessee Valley Authority, and U.S. Mint (both MCC and Mint have switched to FASAB GAAP beginning with their fiscal year 2008 and 2005 financial statements, respectively).

Staff outlined the pros and cons for a number of possible outcomes of the project, 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.

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.

February 2008

At the February 14, 2008, meeting, staff presented an issue paper that contained an analysis of federal financial statement user needs; a structure developed by staff to distinguish between the different activities of the federal government (governmental-type activities, business-type activities, and fiduciary activities); three options for members to consider; and a draft survey that would be used to solicit feedback from the federal financial management community on each of the three options. The paper is available on the Appropriate Source of GAAP (Generally Accepted Accounting Principles) project page at <http://www.fasab.gov/projectsqaap.html>.

Under the first two of the proposed options (separate accounting and reporting by line item and separate accounting and reporting using the modified equity method), entities that engage primarily in governmental-type activities would be required to convert to FASAB GAAP while entities that engage primarily in activities that meet all of the characteristics of business-type activities would be permitted to report under FASB GAAP. No additional reporting would be required by component reporting entities unless they engage in a material amount of both governmental-type and business-type activities. Consolidating entities (and component entities that engage in both types of activities) would modify the display (either on the face of the financial statements or in the notes) to present the amounts of governmental-type activities separately from business-type activities. Under the first option (separate accounting and reporting by line item), consolidating entities would further distinguish business-type activities by the source of GAAP under which they are reported – FASB or FASAB.

Under the third proposed option (an audited note reconciliation), none of the entities would be required to convert to FASAB GAAP; however, component reporting entities would be required to present a detailed audited note that reconciles the differences between FASB GAAP and FASAB GAAP and supports the amounts submitted to Treasury for the consolidated financial report of the U.S. Government.

All three options would propose to revoke the “grandfather authority” that allowed entities to comply with FASAB GAAP by continuing to apply FASB GAAP with no additional reporting requirements.

Deliberations revealed that the sense of the board is that no entities will be required to convert to full FASAB GAAP at this time. The board is also comfortable with including two sources of GAAP in the consolidated financial statements except where it affects intragovernmental eliminations. Members did not vote to adopt the governmental-type and business-type structure developed by staff. The board requested that staff meet with the sponsor workgroup to determine which line items are significant in the FASB vs. FASAB intragovernmental reconciliation and develop an

exposure draft that proposes a note disclosure for those significant reconciling items only. The other options considered would be included in the basis for conclusions. The issue of budgetary reporting for entities reporting under FASB GAAP will be deferred until the matter is resolved at the governmentwide level.

July 2009

As reported in the August/September 2008 issue of FASAB News, the Appropriate Source of GAAP³ project was elevated to the number one priority by the board at its August 2008 agenda-setting session. At the October 2008 meeting, a proposed project plan was provided to the board that contained the following five objectives for the project:

- a. Address whether it is appropriate for those federal entities currently applying standards issued by the FASB to continue that practice (i.e., establish whether GAAP for a federal entity permits this practice and it is therefore generally accepted);
- b. Determine whether a newly created federal entity may apply FASB standards and, if so, under what conditions (i.e., establish criteria for new entities);
- c. Establish requirements necessary to ensure that the stand alone federal financial reports prepared pursuant to FASB standards meet federal financial reporting objectives;
- d. Provide guidance to address the case of a federal entity consolidating information from an entity (or entities) applying FASB standards with its own FASAB-based information [Note that this does not extend to providing guidance for eliminations. If needed, this can be addressed through implementation guidance or informal assistance.]; and,
- e. Consider any issues arising from possible transition to International Financial Reporting Standards (IFRS) by U.S. non-listed reporting entities (private companies and nonprofits).

The first two objectives (a and b) were temporarily addressed in Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. The primary purpose of SFFAS 34, which was issued as final on July 28, 2009, is to incorporate the hierarchy for selecting the principles used in the preparation of general purpose financial reports by federal reporting entities set forth in the AICPA Statement on Auditing Standards (SAS) No. 91, *Federal GAAP Hierarchy*, into FASAB's authoritative literature. In addition, to avoid any sudden or dramatic changes in practice for federal entities, SFFAS 34 also explicitly permits those federal entities currently applying financial accounting and reporting standards issued by FASB to continue to do so while clarifying that a federal entity that is preparing GAAP-based general purpose financial reports for the first time is required to implement FASAB standards unless, in consultation with its auditors and bodies with oversight authority, the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards.

It is important to note that the board has emphasized that the GAAP exception for federal entities that currently apply financial accounting and reporting standards issued by FASB is temporary. The board is interested in determining whether this type of reporting is meeting federal financial reporting objectives as well as user needs.

³ The "appropriate source of GAAP" is a shorthand reference. The AICPA established that FASAB is the source of GAAP for federal government entities (as defined in SFFAC 2).

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 9) 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 beginning on page 5).

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.

Deliberations at the February 2008 meeting revealed that the sense of the board is that no entities will be required to convert to full FASAB GAAP at this time. The board is also comfortable with including two sources of GAAP in the consolidated financial statements except where it affects intragovernmental eliminations. Members did not vote to adopt the governmental-type and business-type structure developed by staff. The board requested that staff meet with the sponsor workgroup to determine which line items are significant in the FASB vs. FASAB intragovernmental reconciliation and develop an exposure draft that proposes a note disclosure for those significant reconciling items only. The other options considered would be included in the basis for conclusions. The issue of budgetary reporting for entities reporting under FASB GAAP will be deferred until the matter is resolved at the governmentwide level.

Enclosure 1

**Minutes from the
September 9, 2009,
Roundtable**

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Roundtable on Use of FASB Standards by Federal Entities

Summary of September 9, 2009 Meeting

Participants:

(in order by entity and office and then alphabetically by name)

Corporation of National and Community Service

Bob Loring, Director of Accounting
Bob Yuran

U.S. Department of Energy

Bonneville Power Administration

Nancy Mitman, Deputy Chief Financial Officer (CFO)
Kevin Owen, Asset Accounting Manager

Western Area Power Administration

Harry Pease, CFO

Office of Inspector General (OIG)

Dave Lamantia

Farm Credit System Insurance Corporation

Pam Ngorskul, Chief Accountant
Rich Pfitzinger, CFO

Federal Accounting Standards Advisory Board (FASAB)

Wendy Payne, Executive Director
Julia Ranagan, Assistant Director
Ross Simms, Assistant Director

Federal Prison Industries (Unicor)

Craig Henderson, Deputy Controller
Ray Wiley, Deputy Controller

Government Accountability Office

Abe Dymond, Counsel to FASAB
Frank Synowiec, Assistant Director, Applied Research and Methods

Government National Mortgage Association (Ginnie Mae)

Nuthan Deodhar, Controller, Office of Finance
Michael Najjum, Senior Vice President, Office of Finance

U.S. Government Printing Office

Rick Mattero, Chief Financial Reporting Division

Summary of September 9, 2009 Meeting

U.S. Holocaust Memorial Museum

Minnie P. Carmichael, Deputy CFO

Office of Management and Budget

Regina Kearney, Office of Federal Financial Management

Pension Benefit Guaranty Corporation

CFO

Patricia Kelly, CFO

OIG

Rebecca Batts, Inspector General
Joe Marchowsky

U.S. Postal Service

CFO

Vince DeVito, Controller
Laura Dromerick, Manager of External Reporting
Steve Nickerson, Manager, Corporate Accounting

OIG

Kenneth Hopkins
Steve Pinard, Audit Manager, Financial Reporting

Smithsonian

CFO

Stella Whitsell, Deputy Comptroller

OIG

Bruce Gallus

Tennessee Valley Authority

CFO

Donna Terzak, Manager of External Reporting
Diane Wear, General Manager External Reporting, Accounting Policy and Research

OIG

Louise Beck, Manager of Audit Quality Assurance

U.S. Department of the Treasury (Treasury)

Bureau of Engraving and Printing

Len Olijar, CFO

Departmental Offices

Scott Bell, Government-Wide Financial Statements
Ann Davis, Government-Wide Financial Statements

Summary of September 9, 2009 Meeting

Karen Miller, Treasury Consolidated Reporting Team

Federal Financing Bank

Gary Burner

Valerie Smithen-Moore

OIG

Mike Fitzgerald, Director of Financial Audits

Observer

Robin Valentine, Partner, KPMG

Introductions and Overview of Project

Ms. Payne welcomed participants and thanked them for taking the time to complete the surveys and attend the roundtable.

Ms. Payne communicated that the roundtable is intended to be an open exchange of information and there are no foregone conclusions, particularly since FASAB has two new board members and they have not yet deliberated on the issue. Ms. Payne also noted that FASAB conducted a joint meeting with the Governmental Accounting Standards Board (GASB) two weeks prior to the roundtable and discussed how GASB deals with entities in the state and local arena that follow standards issued by the Financial Accounting Standards Board (FASB). Therefore, Ms. Payne pointed out, there are some different ideas and new thoughts that FASAB has not really discussed extensively in the past.

Ms. Payne went over the logistics of the meeting and then asked participants to briefly introduce themselves to the group (see participant listing above).

After introductions, Ms. Payne explained that one of the principal objectives of the project on reporting by federal entities that primarily apply FASB standards is to address whether it is appropriate for federal entities following FASB to continue doing so, and if so, whether there are additional disclosures that should be required.

Ms. Payne also explained that FASAB establishes generally accepted accounting principles (GAAP) for federal entities but cannot compel an entity to report. In other words, while FASAB is the AICPA-designated GAAP standards-setter for federal entities, the reporting requirements come from other authorities. Federal entities that choose not to conform to FASAB GAAP still have the option of doing something else; however, it could not be labeled as federal GAAP.

Ms. Payne said she recognizes that each of the entities being represented is unique and she hopes the outcome of this project will be a more than temporary solution that entities can rely on for a period of time.

Summary of September 9, 2009 Meeting

Ms. Payne summarized that Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, that was issued in July establishes the GAAP hierarchy, permits current practice to continue, and lays out criteria for newly created federal entities who desire to apply FASB. Ms. Payne said she thinks it is fair to say that there has been a decision of the board that there are circumstances where it is appropriate to apply FASB because SFFAS 34 provides a channel for newly created entities.

Ms. Payne stated that one thing she found very interesting about the survey results was how many entities expressed concerns about their users and the impact any changes would have on them. She said that is very encouraging because it reflects the way that FASAB looks at reporting – that it meets users' needs.

Group Discussion

Objectives of Federal Financial Reporting and User Needs

Ms. Payne started off the group discussion by asking participants what critical users or user needs they believe are not specifically included in Statement of Federal Financial Accounting Concepts (SFFAC) 1. In other words, how are their entities different than the environment that is described in SFFAC 1?

One participant responded that they are the largest printing company in the country. They procure most of their printing so it is coming from the outside source. He believes they are just like a national corporation. The most important thing their users want to know is whether they are recovering the costs of operations.

Another participant noted that while they receive federal appropriations, their primary users are donors, contributors, and corporations. She stated that donors have an interest in net asset classification, their investment portfolio, and other things that they contribute to like the philanthropy and other reporting that is specific to museums, research centers, and education centers. In addition, they file a 501(c)(3) tax return so they are subject to the Internal Revenue Service (IRS) rules and regulations. It would be extremely difficult, in the participant's opinion, for her entity to change to follow FASAB standards.

Another participant that deals with donors added that donors look at their fundraising costs and compare it to their contribution revenue to determine the cost to raise a dollar. The donors like to see how much of contribution revenue is permanently restricted, which is an endowment, versus temporarily restricted or unrestricted. Donors also look to see how well they are managing the money that the donors have given them. She noted that the federal reporting model does not provide donors with the information they need on net asset classification or costs to raise a dollar. She said the issue of how much money it actually takes to raise money is an important one right now. In addition, they need to provide more detail in the functional expense area and revenue categories

Summary of September 9, 2009 Meeting

so donors can determine how well they are doing in their business ventures (e.g., museum shop or café). It is hard to see that on a regular FASAB report because it is just straight revenue – it is not detailed.

Another participant stated that, in addition to the users that are identified in SFFAC 1, their entity has ratepayers and bondholders and other stakeholders who are interested in its costs and reported capital. Those information needs are not as well met under the FASAB statements and standards as under the FASB standards.

Another participant summarized that their corporation does not receive appropriations; it is a regulated entity that has its power rates set. Their stakeholders are bondholders; they issue public debt that is traded on all the exchanges, including overseas. It has to file in accordance with Securities and Exchange Commission (SEC) guidelines; they file 10(K)s and 10(Q)s and are subject to the Sarbanes-Oxley rules. The power users would also be considered stakeholders in terms of rates. According to its mission, it is supposed to provide the cheapest power feasible for the area. The only way to measure that is to measure it against other power utilities. For the most part in the U.S., all the other utilities are either public entities or private entities – most of which file with the SEC and also file with the Federal Energy Regulatory Commission (FERC). Most of its power is sold externally to municipals, co-ops, and other groups.

One participant stated that his organization is probably the most generic commercial entity in terms of accounting that one would ever run across. One hundred percent of the revenues are fees for services provided to its customers. There is a small amount that is reimbursed through the federal appropriation process, but in effect that is a reimbursement for services already rendered to special classes that Congress has decided to favor with discounted rates. His organization is specifically required by Congress to prepare financial reporting as a commercial entity, and file with its regulator – not the SEC, but otherwise comply completely with the requirements for forms 10(K) and 10(Q) on an annual and quarterly basis. He added that, in addition to its regulator, and Congress obviously, which are overseers for the organization, there is also a very large trade industry that has sprung up around his organization that has a vested interest in following the financial results of the organization. They have been seeing commercial financial reports of his organization since 1971.

Another participant stated that from an accounting perspective her organization is basically an insurance corporation and pension fund with \$50 billion of investments. She said that its end users need to see the detail both on the insurance side – reviewing the liabilities and premiums; and on the investment side to understand the amount and allocations of the assets and their returns. In her opinion, the detailed data are lost in the government statements. She said that if her organization was required to produce a government-type report, she would need to prepare a second set of statements in order to answer all of the questions that the users would want answered. She said her organization needs to report in a manner analogous to the way an insurance company reports; if they provided their users with government statements, it would be of little use to them.

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One participant said that it would add no value to his organization or its users to do obligation-based accounting. He said that his organization runs a commercial-type budget and it is cash flow that is critical to his organization.

One participant noted that her organization has no appropriated funds; it needs to be looking at cash flow to see what its returns are and what its bottom lines are. She said if her organization had to prepare the statement of financing (SOF) footnote, she would need to hire staff with the appropriate background as only a couple of her staff have experience in preparing the SOF.

Ms. Payne asked if the participants are required to file a Standard Form (SF) 133. One participant responded that they do not receive any appropriated funds, but some portion of their funds is managed through the apportionment process for control purposes.

One participant stated that in addition to customers, vendors are a big part of users of his organization's financial statements. He noted that aside from salaries, about 70 percent of what his organization spends is in the private sector for raw materials and services related to what they do. He said the vendors could care less whether they are a federal entity; they want to see what the organization's finances are like. He said Congress is also a key user, and while he can't speak for them, the main thing he would look for if he were them would be solvency because his organization does not receive appropriations – it has to survive off of the earnings that it generates.

Another participant stated that she had previously worked for a government insurance corporation that was required to report out under FASAB. She explained that in order to provide the Board of Directors with useful information, she had to construct a second set of financial statements that they could understand. In her opinion, people outside of the government have a hard time understanding the financial statements of the government as the information is not intuitively obvious.

Another participant questioned whether, in terms of federal government reporting and saying its users are the taxpayers and reporting out and being transparent, is it distorting those budgetary financials by adding in the commercial operations that do not receive appropriations and would not receive tax dollars or anything like that. She questioned whether it is distorting that by grossing everything up. She added that if her organization runs a deficit, it just raises its rates and the difference comes from the ratepayers – it would never come from the taxpayer. By rolling these commercial-like entities into the federal government numbers, it seems like it would distort it for the users of the federal government. The taxpayer has neither risk nor reward from these operations.

Another participant said his organization is the only federal Government Sponsored Enterprise (GSE) bond insurer. As such, it receives no appropriated funds. The users of its financial statements are bond purchasers, bond trading agencies, and big financial institutions. In his opinion, the participant said to offer them federal budgetary accounting statements would be of absolutely no use to them. He said his organization's biggest function is to maintain a large insurance fund. As an insurer, it

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has all the same issues as other insurers. He said he sees no real benefit to his agency or its constituencies of doing federal-based statements. He said they just do not work.

Ms. Payne summarized that, of the four objectives of federal reporting from SFFAC 1, the budgetary integrity objective, for most of the organizations represented, is a problem. The majority of the group agreed.

One participant clarified that it is a problem as defined by SFFAC 1. He said his organization still has a budget process but budgetary integrity means something different to him.

Another participant replied that she does not want to be negative so she does not want to say it is a problem; it is more that it is not particularly relevant and would eat up a lot of resources to be able to accomplish full implementation.

Ms. Payne said she was interested in feedback on the systems and controls objective because that is one area that distinguishes FASAB from some other standards-setters. She asked how the organizations go about reporting on the status of their systems and controls and who is interested in that information.

Some of the participants said that they are subject to Sarbanes-Oxley. Several others indicated that they comply with OMB Circular A-123, *Management's Responsibility for Internal Control*, either because they are required, or voluntarily.

Management Discussion & Analysis

Ms. Payne stated that one of the key differences is that FASAB requires a management discussion and analysis (MD&A) and that is a very user-focused component of the annual report. She inquired if any of the organizations do not include an MD&A.

None of the participants said they do not include an MD&A.

Are We Federal Entities?

Ms. Payne asked whether most of the participants, with the exception of the museums that are donor funded and federally funded, consider their organizations to be federal entities (defined by Ms. Payne as instrumentalities of the federal government created with oversight by elected federal officials).

Several participants asked for clarification of the question. Ms. Payne responded that if they had an umbrella over federal entities (e.g., Executive Branch, federal corporations, etc.), would any of the participants pose an argument that his or her organization could not fit under the federal umbrella or is there a level of federal oversight, control, and relationship that they acknowledge?

None of the participants, with the exception of the Smithsonian Institution, argued that his or her organization is not a federal entity.

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Key Differences

Ms. Payne asked participants what they believe to be the key differences that make their reporting objectives different from those described in SFFAC 1.

The participants offered the following five examples of why their reporting objectives differ:

- level of detail on the income statement
- comparability with non-federal organizations
- consistency over time (change would be disruptive with no benefit)
- budgetary reporting not relevant
- need to show cash flow from operations

Cost Accounting

Ms. Payne noted that some of the surveys said it would be painful and expensive to do the FASAB cost accounting while others said if they switched to federal accounting they could lose their cost accounting ability and would not be able to get systems that supported their cost accounting.

Ms. Payne asked participants how big of an issue cost accounting is for their organizations because FASAB does have a cost accounting standard (SFFAS 4, *Managerial Cost Accounting Standards and Concepts*), whereas most standards-setters do not incorporate cost accounting standards.

Many of the participants acknowledged that they are not familiar enough with SFFAS 4 to be able to answer the question.

Ms. Payne responded that the standard is very principles-based and requires agencies to identify their unique responsibility segments or lines of business so it can break the costs out into buckets. She noted that the standard lets management have a fair amount of range.

Ms. Payne opined that the biggest difference that would result from the cost accounting standard for many would be for the organizations that have employees who are part of the federal retirement system. Under FASB, the entity's cash contribution is treated as the total cost of these post-employment benefits. Under SFFAS 4 for cost accounting, entities would need to pick up the taxpayer subsidy and treat that as a cost of outputs as well.

Ms. Payne explained that there is no requirement to have a cost accounting system because the standard permits cost finding. An entity can simply decide what bucket to put the cost in at year-end.

One of the participants pointed out that SFFAS 4 says that gathering costs should not be cost prohibitive.

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Another participant stated that is such an interesting point because so many times entities are asked to do things – particularly on the administrative side of the house – to meet requirements, be it FASB, FASAB or OMB, yet implementing them can be very expensive while it is impossible to get the funds from OMB. The entities end up constantly cutting into the program activities or just doing a band-aid approach to try to implement something.

One participant responded that their entity actually pays a cash contribution to cover the entire retirement cost to eliminate the subsidy by the taxpayer.

Another participant noted that his entity has an elaborate cost accounting system based on business segments that is all based on the gross profit line on a commercial income statement and up. So the administrative expenses are not incorporated into the cost accounting; that is a part he is concerned would be interfered with. He stated that if his entity had to take those items below that gross profit line and bring them up into the business segments, which is what SFFAS 4 would expect, then he would have that concern.

[Break]

Following a 15-minute break, Ms. Payne stated that there were a couple of things she wanted to clarify. Ms. Payne noted that accounting standards provide a minimum. Some of the participants have expressed concerns that the detailed functional expenses that are shown on their operating statements might be lost. Ms. Payne explained that there is nothing that would prevent an organization from having that first line that said “gross cost.” In her view, GAAP would allow entities to show gross cost, the functional breakout, and then total gross cost less exchange. She stated that there are ways to keep the detail that users want when adopting FASAB standards.

Ms. Payne also stated that she thinks entities would be able to address the statement of budgetary resources issues if entities truly did not have obligations that were material. If that is the case, then it is unlikely that a statement of budgetary resources would be a cost-beneficial component of the entity’s report.

Ms. Payne said that if there are any federal entities that the board decides need to transition to FASAB standards, she believes some of the entities’ concerns could be alleviated with the provision of guidance.

One participant expressed concern about how the board would go about transitioning federal entities to FASAB accounting standards. Ms. Payne explained the due process that is involved.

The participant asked if the board would be looking at agencies individually. Ms. Payne responded that staff will most likely place entities into different buckets based on the characteristics of the entities.

One participant expressed a concern about what federal accounting would do to their operations. She said that their investors are reading their reports and audited financial

Summary of September 9, 2009 Meeting

statements, and they are looking for three things: the program growth, the net profit, and the securities issue. If they were to see budgetary obligations, they would misconstrue the whole thing and think the organization is on a path to go under when it is not. She emphasized that if they were to show the budgetary statement, it would be a miscommunication to the investing community and the banks and so forth, because they truly do not understand governmental accounting. She added that it would slow them in their reaction to the market and it was Congress' intent for them to have standards that would match what the private sector is looking at so they would understand where the organization is coming from.

Operational Issues

Ms. Payne moved on to a discussion of the operational issues that have to do with the current environment where organizations are filing FASB but the closing package that Treasury needs is FASAB. Ms. Payne inquired what issues are involved in providing an audited closing package as opposed to an unaudited closing package.

One participant responded that they are currently not providing an opinion on the closing package primarily because of this issue of FASB versus FASAB. While the organization does submit unaudited information up to Treasury, it has not been restated to be FASAB compliant.

Another participant pointed out that while some people feel that regulatory accounting is appropriate under FASAB because FASAB is silent on the specifics, their auditors are struggling with that because of all of the standards FASAB has issued on revenue and expense recognition.

Several participants mentioned that another big gap is because they do not do budgetary accounting.

Another participant mentioned the significant difference in insurance liabilities on an accrual versus a budgetary basis.

Several participants stated that they have been providing audited opinions on the closing package. The main differences noted were on the valuation of investments and the treatment of unexpended appropriations.

One participant stated that their Governmentwide Financial Reporting System (GFRS) submission is audited but if FASAB accounting was imposed upon her organization, they would have to do two sets of financial statements in order to meet the needs.

One participant noted that they have records that are 80 to 90 years old and she is not certain that they could materially get to FASAB accounting unless there was some avenue to where there could be a materiality threshold put on the specific opinion as it goes up to the federal government.

Another participant stated that they have been preparing two sets of statements for several years now but their auditors do not want to provide a GAAP opinion on both

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sets of statements – in the auditors' eyes, only one presentation can be GAAP.

The participant went on to say that it is critical for agencies to develop a crosswalk for the financial statements and the SF 133 that is blessed by everybody that is involved so they do not run into audit issues down the road. In addition, he noted that the crosswalks and guidance that are put out by OMB and Treasury are generic; he said there should be specific guidance for the entities that apply FASB so everyone crosswalks consistently. Many participants agreed.

Another participant noted that while FASAB staff has pointed out that the Government Corporations Control Act (GCCA) does not really specifically say that government corporations are required to use FASB, the law refers to the required reports by name – a statement of financial position, a statement of operations, a statement of cash flows, and they are required to be audited. When the external auditors view that GCCA, they may not have another conclusion to arrive at other than a FASB set of statements. The participant stated that, in his opinion, if FASAB were to go in the direction of requiring all federal entities to present FASAB, they would be putting some entities in a catch-22 that they cannot resolve and FASAB would be forcing them to get at best, a disclaimer, unless FASAB can get it worked out with Congress to reword the reporting requirements of GCCA.

International Financial Reporting Standards

One participant asked if the board is looking to what is happening in the international arena in terms of International Financial Reporting Standards (IFRS). She noted that IFRS is kind of looming out there for all the SEC registrants. She inquired whether other governments follow IFRS or if the federal entity in each country has its own standards.

Ms. Payne responded that the answer is each country is unique. She explained that there is an International Public Sector Accountings Standards Board. Some countries adopt the international public sector standards but she is not aware of any that give up their sovereign right to alter the standards.

Ms. Payne asked the participants for their thoughts about transitioning to IFRS. She asked whether that is something that would cause them in a few years, to rethink the decision to be in the commercial reporting world as opposed to the federal reporting world.

Several respondents indicated that because they strongly believe private sector standards are the appropriate standards for their entity, they would follow whatever the private sector companies are doing.

Note Disclosure

Moving on to potential options, Ms. Payne stated that the question becomes if FASAB were to establish guidelines that tells entities to keep doing what they are doing but it

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also wants X, Y and Z, if one of the things that was needed was a reconciliation in a note disclosure between FASB and FASAB, what impact would that have on the entities in terms of communication with their users and what kind of cost issues are barriers?

One participant responded that it could jeopardize their opinion because they have always received a clean opinion from the get-go on their financial statements. If they are required to do this reconciliation and the reconciliation would require them to go back and restate something that they do not even have the records to restate, and that footnote would have to undergo audit scrutiny, it could jeopardize their opinion if it were material. That could wind up affecting the entity in the bond market.

Ms. Payne clarified that FASAB is not in the business of creating catch-22's. FASAB is currently undergoing a lot of work to provide practical ways to move the ball forward for a collection of entities that are not able to substantiate historical costs of their assets. If FASAB were to go down this road, it would provide guidance to get agencies to a good starting place, and then, once the insurmountable barriers are knocked down, entities would need to keep their reconciliations up and running on an annual basis.

Ms. Payne asked participants what such a requirement would do to the entity, its operations, and its users.

One participant responded that she thinks cost is the biggest factor – the cost of maintaining basically two sets of books and then those costs being passed on to the ratepayers who are a subset of the taxpayers.

Another participant responded that he does not think their primary users would benefit from it. In a rate-setting environment, he said, it would be very complex, first of all, for them to do this and maintain it on a timely basis when it has its audit opinion issued within 27 days of year-end. He said that would imply that their auditors would be experts in both sets of GAAP, which would be very difficult.

Ms. Payne asked participants if they thought their users would be confused if there were cost differences and which ones should really govern rates.

One participant responded affirmatively, saying that if they did the reconciliation and the cost came out lower under FASAB standards, he could see that leading to lawsuits and questions about why the entity is not utilizing the lower rates.

Another participant noted that there is also the public perception as well. If it hit the headlines that the entity has two sets of books, how would that look to everybody? What are they trying to hide?

One participant noted that by law his entity is required to keep rates at the lowest possible rate according to organic statutes that again, point to commercial standards. They would not want something in conflict; that would be very, very difficult to explain.

Another participant agreed that the two sets of books is a very good issue to raise when one thinks about the people that are reading their financial statements. She pointed out

Summary of September 9, 2009 Meeting

that the things that are just so obvious to the entity, will not be to even a well-educated person – they are just going to see numbers that do not match. She went on to say that her organization does the reconciliation through the government-wide and that is fine, but having two sets of numbers in one document would raise more questions than provide benefits. She added that she is not sure who the audience is that needs to see these things and what would they get out of it.

Another participant stated that she has a sense that her organization could do the note disclosure and it would not be a particularly difficult thing for them to do; however, she would probably have to set aside three FTEs just to answer questions about why and which number is the real one. She said that sometimes even fairly simple things raise amazing questions with folks that should know better but do not; she said she sees a nightmare with such a disclosure.

Another participant replied that whenever FASB requires them to put a range in an estimate, they book what they say is their best estimate and then they disclose a range; however, the newspapers, the SEC, the bond raters, and everyone else just go and look at that one number and that is what is spread throughout the community. She stated that if they were to have a set of financials that have differing numbers, it would just immediately raise questions such as are you keeping two sets of books and are you just playing and pushing numbers between the two?

Another participant added that he is not sure about the other agencies represented here, but his organization is sued a lot by various groups such as municipal utility districts and investor-owned utilities. He said they are sued a lot and a note disclosure with different numbers just would not help.

Another participant added that environmentalists sue too, and they love to jump on differences in numbers.

Another participant stated that her organization is not sued a lot but they are sued, and different numbers would create a problem for them also at many different levels.

One participant stated that it would create a perception problem and questions about what is the real story.

Another participant stated that she can guarantee that if they have two sets of books, their oversight committees are going to be calling them in and asking, “Can’t you count? What did you learn in accounting? I don’t understand this at all. Explain it to me.” She said she just could not imagine trying to explain in Congressional Hearings these differences in budgetary accounting.

One participant said that the government numbers are there, but she does not know anyone that uses that second report.

Another participant added that they have never had a request for the government numbers. They do not post it on their OIG website and they have never had a request for that information.

Summary of September 9, 2009 Meeting

Primary Reasons We Are Different

Ms. Payne asked the group to provide the primary reasons they would distinguish themselves from a typical government entity.

The participants provided the following 11 reasons that they would distinguish themselves from a typical government entity:

- no annual appropriations (materially speaking)
- conflicting regulatory law – SEC, FASB, and IRS requirements
- user fees and other revenues from outside the government.
- users are different – targeted and directly impacted.
- cash flow focus
- comparability with non-federal entities
- commercial activities
- job costing
- capital structure
- audit disclosures for endowment funds and investments
- subject to bond ratings and analysis

Why Make Everyone FASAB?

A participant asked what the benefit would be of having everyone report using FASAB accounting standards.

Ms. Payne responded that, from the point of view of a user of the governmentwide report, one would probably expect federal entities to have the same basic measurement approaches and to provide the same basic information to the extent that they have it. For example, if there was an entity that was operating on appropriated funds one might expect to see those appropriated funds reported in the same way as other federal entities. Therefore, there is a user interest beyond just helping with the logistics of consolidating the financial report.

Ms. Payne went on to say that, from a standards-setting perspective, things should not be different just because they are or just because people have been doing things that way. They should be different because there is some underlying reason. That is why the American Institute of Certified Public Accountants (AICPA) keeps raising this issue and that is why FASAB needs to go through due process to determine what is right.

Another participant asked if there is anything to be gained by asking the financials that an entity produces independently to be FASAB if it is already going through and doing the mapping from FASB to FASAB standards.

Ms. Payne responded that FASAB has to be concerned with what entities present to the public as generally accepted because they are federal entities making a financial report that is available to the public.

Summary of September 9, 2009 Meeting

One participant asked if the requirement to apply FASAB would override legislation that requires certain entities to prepare financial statements pursuant to standards set by a regulatory agency (e.g., the Federal Energy Regulatory Commission (FERC)) or some other alternative presentation.

Ms. Payne responded that, as she explained earlier, FASAB establishes GAAP. If a law required an agency to do something different, the result would simply not be GAAP; it would be something else and the agency would continue to comply with the law. FASAB is certainly not going to direct an agency not to comply with the law.

Another participant noted that some of the confusion is that if an entity can get a clean opinion on its entity level, how could it not have a clean opinion for federal? In other words, if the presentation is accepted at the entity level, why doesn't that just carry over in the roll up?

Ms. Payne replied that is one of the questions FASAB is going to answer.

Wrap-Up

Ms. Payne thanked everyone for their participation and noted that a summary of the meeting would be provided to the board for its October meeting.

(Note: Participants were provided with an opportunity to review these minutes for accuracy and clarity.)

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Enclosure 2

Results of Cost / Burden Survey

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August 26, 2009

Memorandum

To: Roundtable Participants

From: 
Wendy M. Payne, Executive Director

Subject: **Use of FASB GAAP by Federal Entities – Results of Cost / Burden Survey**

In preparation for the roundtable on September 9, 2009, I have attached the results of the "Request for Cost / Burden Information" survey that was previously circulated. The purpose of the survey is to gather information on the expected benefits and perceived costs and burdens associated with various approaches to resolving any concerns regarding the source of generally accepted accounting principles (GAAP) for federal entities.

I believe you will find the attached survey results helpful in preparing for the roundtable discussion and I hope you will take the time to review them. To assist with your review, my staff has prepared a consolidated summary of the survey responses beginning on page 7.

If you have any questions or comments prior to the roundtable, please contact me by telephone at 202-512-7357 or email at paynew@fasab.gov or Julia Ranagan by telephone at 202-512-7377 or e-mail at ranaganj@fasab.gov.

Attachments:

Attachment 1 – Copy of Original Survey Request

Attachment 2 – Summary of Responses and Responses by Agency

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This survey was circulated to selected entities in spring 2007. We are asking that entities either update their survey, if applicable, or complete one if not previously submitted. We plan to provide consolidated results 10 days in advance of the roundtable to facilitate discussions. Completion of the survey is voluntary but would be very helpful to the discussions.

Federal Accounting Standards Advisory Board

Responses Requested by April 20, 2007

March 28, 2007

Memorandum

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

*Community Development Financial Institution
Corporation for National and Community Service
Federal Deposit Insurance Corporation
Federal Prison Industries (Unicor)
Government National Mortgage Association (Ginnie Mae)
Millennium Challenge Corporation
Office of Thrift Supervision
Pension Benefit Guaranty Corporation
Tennessee Valley Authority
U.S. Treasury*

From: Wendy M. Comes [Payne], Executive Director

Subject: Request for Cost / Burden Information

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

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

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

Attachment

Request for Cost / Burden Information

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

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

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

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

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

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

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

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

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

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

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

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

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

Request for Cost / Burden Information

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

Requested Information Regarding Person Completing Survey:

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

First and Last Name:

Agency Name:

Position Title:

Phone Number:

Email Address:

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

Summary of Responses to Survey

(for responses received by August 25, 2009)

Organization	In Favor	Not In Favor	Position Not Clear	No Response	Page	New / Updated
BPA – CFO (*)		X			A – 19	X
BEP – CFO (**)		X			A – 31	
CDFI – CFO		X			A – 34	
CNCS – CFO				X	--	
CNCS – OIG			X		A – 36	
ESF – CFO (**)		X			A – 37	
Treasury – Deputy Asst Sec International Affairs		X			A – 39	
FDIC – CFO		X			A – 40	
FDIC – OIG		X			A – 43	
FFB – CFO (**)		X			A – 45	
FPI – CFO		X			A – 47	
DOJ – OIG	X				A – 49	
Ginnie Mae – CFO		X			A – 51	
HUD – OIG			X		A – 55	
MCC – CFO (***)				X	--	
USAID – OIG				X	--	
OCC – CFO (**)(***)	X				A – 59	
OTS – CFO		X			A – 61	
PBGC – CFO		X			A – 63	X
PBGC – OIG		X			A – 67	
TVA – CFO		X			A – 70	X
TVA – OIG		X			A – 70	X
Treasury – DCFO			X		A – 76	
Treasury – OIG	X				A – 81	X
U.S. Mint – CFO (***)	X				A – 84	
U.S. Postal Service – CFO		X			A – 86	X
Total	4	16	3	3	88% response rate	

(*) Note: FASAB staff contacted the Bonneville Power Administration to determine how it reported to the Department of Energy (DOE) for DOE's consolidated financial statements since it is similarly structured to TVA but is a component entity of DOE. As a result, BPA volunteered to provide a response to the survey.

(**) Note: The Treasury CFO's office circulated the survey to all of its bureaus that prepare(d) FASB-based statements so additional responses were received from other than the 10 selected entities.

(***) Note: OCC, MCC and U.S. Mint have converted to FASAB GAAP.

Key

In favor – Would generally be in favor of a conversion from FASB GAAP to FASAB GAAP and / or did convert.

Not in favor – Would generally not be in favor of a conversion from FASB GAAP to FASAB GAAP.

Position not clear – It was not evident to staff whether the respondent was in favor or not in favor.

No Response – A response to the survey request was not received.

CONSOLIDATED COMMENTS BY QUESTION

Disclaimer: These statements are the result of a survey of opinions and do not necessarily represent statements of facts.

1. What are the main differences you are aware of between reporting under FASAB standards versus reporting under FASB standards for your specific organization (e.g., asset valuation, imputed costs, property, cost accounting, Management Discussion and Analysis, format of financial statements, etc.)?
 - a. Utility accounting (e.g., asset accounting - treatment of gains and losses, depreciation conventions, asset retirement obligations, EN debt refinancing, etc.) and regulatory accounting (e.g., FAS 71 assets and liabilities);
 - b. Ratemaking;
 - c. Conflicting guidance between FASAB and utility accounting (regulatory) required by the Federal Power Act;
 - d. Variable Interest Entities (FIN 46);
 - e. Public Law 81-656 requires the Bureau to prepare a business-type budget while FASAB standards and systems support appropriation-based budgeting;
 - f. Format of the financial statements;
 - g. Credit reform;
 - h. MD&A;
 - i. Footnote disclosures required under FASAB (e.g., Stewardship Reporting and Credit Reform);
 - j. Imputed costs;
 - k. No FASAB standards on marketable investment securities;
 - l. Budgetary integrity federal financial reporting objective does not directly apply to entities that do not receive annual appropriations;
 - m. Different user needs;
 - n. Users more familiar with FASB standards;
 - o. Cost accounting;
 - p. FASB reporting requirements are more detailed and useful for the decision making process than FASAB;
 - q. Performance information;
 - r. Separate intragovernmental activities;
 - s. Disclosures related to federal leave liabilities;
 - t. Supporting financial systems, policies, procedures, and internal control processes;
 - u. Guarantees under FASB Interpretation No. 45 (FIN 45), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others;
 - v. Budgetary accounting;

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- w. SFFAS #7 requires a distinction in reporting between exchange vs. non-exchange revenue;
 - x. Disclosures required by Statement of Financial Accounting Standards (SFAS) 157, Fair Value Measurements;
 - y. Required Supplementary Stewardship Information (RSSI) (i.e., stewardship investments) and Required Supplementary Information (RSI) (e.g., deferred maintenance);
 - z. Accounting for contingencies;
 - aa. SFAS 35, Accounting and Reporting by Defined Benefit Pension Plans - Investment portfolio valuation (Mark to market adjustments) are not covered presently by the FASAB;
 - bb. Planned FASB transition to IFRS;
 - cc. Fiduciary accounting;
 - dd. Annual payments to the federal government representing a return of equity and a return on equity (FASB – reduces proprietary capital, FASAB – accounted for as an expenditure in the statement of net cost or a transfer in the statement of changes in net position);
 - ee. Loan impairment (FASB – assessed when probable that contractual amounts won't be collected, FASAB – subsidy expense recognized at loan inception);
 - ff. Loan origination costs (FASB – deferred and amortized over the life of the loan as an adjustment of loan yield, FASAB – expensed);
 - gg. Operating materials and supplies (FASB – lower of cost or market, FASAB – historical cost);
 - hh. Asset retirement obligations (FASB – cumulative effect of a change in estimate is expensed in the year of the change in estimate to the extent it applies to the current year, and the remaining amount is spread out over future periods, FASAB – the cumulative effect of a change in estimate of the amount of an asset retirement obligation is expensed in the year the estimate is revised. While SFFAS 6 addresses clean-up costs, there are different perspectives between SFAS 143 and SFFAS 6 in the recognition of and accounting for “AROs”);
 - ii. Changes in accounting principle (FASB – recorded as a cumulative effect resulting in the restatement of balances in the earliest period presented, FASAB – recorded as a cumulative effect resulting in the restatement of only the beginning balances of the current period);
 - jj. Pension liability (FASB – reported net of assets held in trust. The liability is calculated using the projected unit credit cost method which projects the benefit based on service, but uses the final average projected compensation, social security benefits and other relevant facts projected to the age the employee leaves active service. Expense is smoothed to amortized actuarial gains or losses over the remaining service period of employees. Unamortized actuarial gains and losses are either recorded in equity or as a regulatory asset. The discount rate used is based on high-quality long-term corporate bonds, FASAB – the pension liability is reported gross. It is calculated using the aggregate entry age normal actuarial cost method. Expense includes all actuarial gains and losses and disclosure of the breakout of these between experience versus assumption changes is required. The discount rate must be based on U.S. Treasury rates);

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- kk. Other retirement benefits (FASB – ORB is calculated using a discount rate based on high-quality long-term corporate bonds. The health care cost trend rate used is consistent with the industry norm, but does not match Medicare projections, FASAB – the ORB is calculated using a discount rate based on U.S. Treasury rates. The health care cost trend rate is consistent with Medicare projections);
 - ll. Consolidation into governmentwide financial statements;
 - mm. Concept of net cost by program not present in FASB GAAP;
 - nn. Classification of assets and liabilities (e.g., entity/non-entity, funded/unfunded); and,
 - oo. Reporting earmarked funds.
2. What do you see as the primary benefits that could be achieved if your organization converted to FASAB standards?
- a. Similar/consistent treatment and presentation of all entities in the consolidated financial statements;
 - b. Time savings as well as some cost savings by preparing one set of financial statements;
 - c. It would be beneficial to have the information regarding intragovernmental activities and performance measures that is provided under FASAB standards;
 - d. Consistency with other federal agency reports;
 - e. Eliminating the cost of having to maintain limited records for converting the commercial GAAP report at fiscal year-end;
 - f. The unique standardization for federal agency accounting records resulted in an easier conversion to a new accounting system;
 - g. Standardized information provides for a better level of comparability and benchmarking when looking at other federal agencies; and,
 - h. Primary benefit may be to the OMB and Treasury in compiling the statements on a government-wide basis, and GAO in auditing the consolidated statements.
3. What do you see as the primary drawbacks that might occur if your organization converted to FASAB standards?
- a. FASAB standards do not address utility disclosure and reporting requirements;
 - b. Entities operating in the utility industry are required to maintain records and accounts in accordance with the requirements of the Federal Power Act;
 - c. Conversion to FASAB accounting could impair the entity's ability to comply with statutory requirements outlined in organic and general statute;
 - d. Conversion would entail a revamping of the entire operational and financial system, processes and procedures, and data structures to accommodate transaction-based federal accounting, and would require additional effort each quarter to complete data conversions and crosswalks necessary to meet commercial reporting requirements;
 - e. There are no federal software packages available that meet the business and statutory reporting requirements of the enterprise;

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- f. For entities that are not taxpayer funded, the expense of a conversion would fall on the entities' customers (e.g., ratepayers);
 - g. We do not believe that a requirement for a conversion to FASAB standards would absolve the requirement for utilities to prepare an annual report using FERC utility accounting standards;
 - h. An additional layer of reporting requirements is inconsistent with providing low rates consistent with sound business principles. A second set of financial records would be expensive, unnecessary, and result in no additional benefit;
 - i. Conversion may violate statute. Public Law 81-656, the enabling legislation for one entity's revolving fund, requires the entity to prepare a business-type budget, which is not supported under FASAB standards;
 - j. Implementation costs in excess of \$40 million that must be funded by customers estimated by one entity;
 - k. FASAB standards were not specifically designed to be used by a federal agency styled as a commercial entity that follows commercial accounting practices;
 - l. A system conversion would be an extremely arduous and risky undertaking and would not provide any benefit;
 - m. It is doubtful that any existing government system could readily or efficiently provide the manufacturing cost accounting, accountability, and inventory tracking functionality required;
 - n. The FASB GAAP-based, monthly financial statements, especially the statement of cash flows, enable management and key stakeholders to readily assess its financial health while nothing comparable exists under FASAB reporting and its emphasis on obligation accounting;
 - o. Operating and reporting under FASAB standards would result in the need for additional FTE and higher audit costs, again without any benefit;
 - p. Time and effort required to compute the information for the disclosures required under SFFAS #2 (Accounting for Loans and Loan Guarantees)
 - q. Preparing schedules and accumulating supporting documentation for the auditors to support various line items not previously provided under FASB;
 - r. Developing some kind of cost accounting process to accumulate costs by responsibility segment as required in the statement of net cost (and SFFAS #4);
 - s. FASAB financial statements will have less meaning to many of our constituents who comply with the FASB standards (financial institutions and non-profits);
 - t. For entities that manage secret or sensitive information, the MD&A may not be able to provide complete/meaningful information;
 - u. Where statute prohibits usage of the fund for any administrative purposes, the salaries of employees cannot be charged to the fund. Imputing these costs, and other associated costs in the financial statements would alter the presentation of the financial statements;
 - v. 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;
 - w. The inability to effectively carryout its mission as the insurer of deposits;

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- x. Millions in expenditures would be incurred to implement a system conversion on a system that only recently was implemented and supported with large budget expenditures;
 - y. Further costs could be incurred to implement and process transactions under FASAB guidelines because the receiverships and the entity share the same financial system structure/platform. (The entity is appointed receiver for failed financial institutions);
 - z. Stakeholders across the country (financial institutions, banking trade groups, depositors) who understand and rely on agency financial statements based on FASB guidelines would no longer be able to readily interpret the financial statements without assistance;
 - aa. Lack of clear benefits;
 - bb. The manner in which the entity accounts for receiverships created as a result of financial institution failures would need to be factored into this analysis;
 - cc. FASAB's financial statement format may not be easily translated by the entity's user community since they are typically accustomed to reviewing public statements of financial institutions which are universally accepted and understood;
 - dd. The entity's management and key users may not be readily able to assess its financial health under FASAB standards;
 - ee. To convert to FASAB, we would have to develop the formats and crosswalks for the FASAB statements, and would still be required to prepare financial statements as required by the Government Corporation Act because comparable reports do not exist under FASAB;
 - ff. The primary drawbacks are noticeable in the GAAP Statement of Operations and Cumulative Results of Operation (Income Statement) vs. the Statement of Net Cost. The GAAP Income Statement provides the entity's management-level and existing or potential business partners with a more comprehensive understanding of the entity earning abilities, cost of the products and services offered, and tabulates gross revenues received and source of income. The Statement of Net Cost reflects total cost of the entity with insufficient detail of the essential income statement components that provide valuable information;
 - gg. The FASAB requirement on budget and obligation development and reporting would be estimates that could not be adhered to due to the nature of the entity's business processes. The detail of commercial reporting is not addressed in FASAB standards, i.e., revenue recognition, inventory valuation, asset impairment and cost to manufacture;
 - hh. The entity is beginning to build its commercial customer base and believes that reporting under FASB standards will help growth in this area because the customers would better understand the financial statements;
 - ii. The cost associated with adopting new standards, unfamiliar to a large segment of our user community can't be justified;
 - jj. Changing the format and display of our financial statements would be confusing to many of our users. Many of our users would be unfamiliar with FASAB standards and some of the FASAB statements. The financial confusion would result in considerable costs on the part of the entity to explain and interpret

- these changes to our user community as well as misunderstandings about the financial operations of the entity;
- kk. The costs associated with adopting FASAB standards would displace other more important discretionary financial management improvements;
 - ll. The entity would need to either also furnish its principal statement users (banking and investment corporations) with (a) continued GAAP prepared Annual Report and/or (b) FASAB prepared report with extensive explanations and disclosures of how the current period accounting principles and reporting differ from the prior period;
 - mm. The universe of those who are experienced in applying FASAB standards is somewhat limited. Experienced accountants who have worked solely in the private sector or state and local government experience a steep learning curve;
 - nn. Lack of published materials and other guidance that may assist an agency in understanding the FASAB standards. This limited guidance and a lack of adequate communication can prove problematic. In contrast, FASB standards often are quickly analyzed by numerous accounting firms, practitioners, and academics with many publications available on the individual standards and their implications;
 - oo. A transition to FASAB standards would be a significant change to the format, content and underlying principles used to prepare the financial statements and would be disruptive and counter-transparent for many years to a large and important sector of the entity's financial statement user community;
 - pp. A significant change to the format, content and underlying principles used to prepare the financial statements would disrupt the consistent and historical financial information presented in the entity's financial statements;
 - qq. The transition period (several years) to prepare financial statements using FASAB accounting standards and A-136 could put entities at an increased risk of jeopardizing unqualified audit opinions;
 - rr. The entity has a significant amount of investments in various financial instruments (i.e. securities and derivatives) and relies heavily on fair value accounting, which is also not specifically addressed in the FASAB standards. We believe that if the entity converts to utilizing FASAB standards we would ultimately have to look to guidance provided by FASB standards to address the entity's unique accounting and reporting needs. Based on this, we believe the benefits from converting to FASAB are very limited and the benefits do not seem to outweigh the related costs. Furthermore, we do not believe that converting to FASAB will provide any additional useful information to our decision makers/users of our financial statements or enhance user specific qualities (i.e. understandability, decision usefulness) or primary decision specific qualities (i.e. relevance, reliability);
 - ss. The primary drawback to issuing both FASAB and FASB-based financial statements and obtaining two audit opinions (since no "either/or" alternative is available in some cases) 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 while the auditors would likely disclaim on

- the FASAB-based statements), further confusing the users of the entity's 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 the entity's ability to obtain financing at favorable terms in the public capital markets;
- tt. Another drawback is the cost of resources to: (1) locate and gather sufficient historical data to reconstruct past transactions and restate the entity's financial statements; (2) establish and maintain separate records to generate FASAB-based statements in addition to the FASB-based financial statements; (3) hire, educate and train accountants in FASAB standards, while maintaining a cadre of accountants with a working knowledge of the ever-changing and expanding FASB standards and SEC reporting regulations; (4) simultaneously close an additional set of accounting books and records and prepare another set of financial statements and reports within 45 days of fiscal year-end; and (5) obtain an audit opinion on a second set of financial statements from a firm with staff both knowledgeable in FASAB and FASB standards and the different reporting requirements of public companies and federal agencies;
 - uu. Users of the component entity statements may not find the FASAB GAAP statements are suited to their information needs and they may not be comparable to similar non-federal entities in their industry; and,
 - vv. The adoption of FASAB standards is seen as a costly option that could require significant changes to our accounting systems, the retraining of personnel and also of the users of our financial statements.
4. Estimates of the incremental costs that would be incurred by your organization to implement FASAB standards, as well as expected benefits and drawbacks, would be helpful in developing guidance on which source of GAAP is most appropriate. Please provide your input on possible incremental costs below.
- a. The incremental cost of conversion would entail restructuring data, systems, and processes and procedures to accommodate transaction based federal accounting. We believe this effort would be a major undertaking with implications beyond the direct dollar impacts of conversion. Concerns regarding reduced efficiencies, disruptions in supply chain and construction schedules will not be measurable but present. In addition, several FTE would be required on an on-going basis to convert FASAB based data to enable statutory reporting;
 - b. Extensive review of required system changes would be required to determine the incremental cost to implement FASAB standards. However, based on recent expenditures required for the entity's new financial environment, at a minimum, several million would be incurred to analyze, redesign, and implement new systems. In addition, expenditures would be incurred to redevelop business processes and train staff to process and report financial transaction under FASAB guidelines. Cost would also be incurred to brief stakeholders across the country on how to interpret the financial statements presented under FASAB standards.
 - c. The cost to reconfigure the loan management and accounting system to capture and generate FASAB formatted financial reports and other data;
 - d. Incremental costs would consist of IT and accounting personnel costs to configure the data to capture and generate financial information that will meet FASAB standards and educate the financial statement users;

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- e. The development and conversion of all current business processes and configuration of the supporting software;
 - f. The training of staff in accounting and management for the new requirements;
 - g. Purchases of additional software to get detailed reports for decision-making;
 - h. Operational information in a form that is understood at the factory level would need to be developed and deployed;
 - i. Costs to fully implement the budgetary reporting requirements under FASAB standards. They may also experience incremental costs to maintain some of the reporting that is useful to management but not covered by FASAB standards such as the detailed information on expenses that are currently reported on the income statement;
 - j. Costs would include internal staff training, development and inclusion of an MD&A section in the audited financials, education of internal and external financial statement users, and re-focusing budget development, implementation, and monitoring to obligation-based accounting;
 - k. Acquire and develop staff with the knowledge and skills necessary to make the transition to prepare financial statements using a different set of accounting standards. Rough estimates of the time and cost to make this transition would be several years and between one to three million dollars per year, excluding the additional costs that may be incurred by the Office of Inspector General to conduct its audit. In all likelihood, the entity would have to ask the U.S. Congress and OMB for additional funding for this effort;
 - l. Additional costs would be incurred on the part of the Chief Financial Officer's staff and other staff in making adjustments to the newly developed integrated general ledger system, possibly having to restate prior period financial statements, making adjustments to policy and procedures manuals (i.e., accounting and internal controls manuals), and performing the associated staff training.
 - m. Additional costs would be incurred by the Office of Inspector General and their independent audit firm in conducting the audit of these new processes, internal controls, financial statements, and systems;
 - n. Since the organization would need to review and evaluate the applicability of all of the current and pending FASAB standards (including concepts), the entity would incur costs on the part of its CFO, IT, OIG, and possibly other staff, as well as contractor costs (i.e., independent auditors, systems, actuarial contractors) to properly perform this task and identify future budgetary needs;
 - o. One entity estimated the following costs:
 - i. The cost to locate and gather sufficient historical data to reconstruct past transactions, should such data be available, and restate the entity's financial statements to comply with FASAB standards is estimated to be \$1,000,000;
 - ii. The cost to hire, educate and train a group of accountants sufficiently knowledgeable in FASAB standards to maintain the FASAB-based accounting records and prepare these financial statements is estimated to be \$500,000 annually;
 - iii. The cost to obtain a second audit opinion on the FASAB-based financial statements is estimated to be \$1,000,000 annually;

- iv. The cost to obtain actuarial calculations in accordance with FASAB is estimated to be \$200,000 annually; and,
 - v. The total cost to implement FASAB standards is estimated to be \$2,700,000 in the year of implementation and \$1,700,000 per year thereafter; and,
- p. Incremental costs that may be incurred by component entities to convert to FASB standards vary depending on the conversion approach taken. Incremental costs may include costs to (1) manually determine initial balances for budgetary accounts, (2) manually maintain the budgetary accounts in the absence of a budgetary accounting system, (3) develop or purchase a budgetary accounting module to integrate with the current financial accounting system, (4) switch to a shared service provider whose financial accounting system can report in accordance with FASAB standards.
5. Is your organization planning to convert to a new financial management system or significantly enhance its accounting and financial reporting modules in the near future?

Yes – 2

No – 14

Comments:

- a. The earliest estimated replacement date for the current system is 2012 (project initiation). However, that date is an estimate made without any supporting analysis. When the system is replaced, the entity will participate in the FMLOB program, and will require the FMLOB provider to maintain FASB accounting;
- b. BEP has no current plans to convert to a new financial management system or significantly enhance the present system in the near future. The earliest estimated replacement date for the Bureau's current system is 2012 (project initiation). However, that date is an estimate made without any supporting analysis. When the Bureau's system is replaced, BEP will participate in the FMLOB program, and will require the FMLOB provider to maintain FASB accounting;
- c. We currently utilize Oracle Financials and have no plans to convert to a new system or significantly enhance Oracle Financials;
- d. FDIC implemented a new financial management system in 2005 and plans to make incremental enhancements as required;
- e. FFB is in the process of enhancing its current loan management and accounting system;
- f. Ginnie Mae successfully implemented a new financial system in 2006. This effort did not come easy and was the result of a dedicated and focused effort on the part of Ginnie Mae financial management staff. Ginnie Mae successfully converted to a GAAP version of PeopleSoft standard general ledger with an Oracle database on 8/1/2006. PeopleSoft has a credit reform version that is used by the FHA;
- g. Since the conversion to FASAB standards, the OCC has worked with a People Soft based financial system. The OCC is preparing to undergo conversion to an Oracle based system through the Bureau of Public Debt's Administrative Resource Center;
- h. OTS has no plans to convert to a new financial management system. OTS uses the Bureau of Public Debt's Administrative Resource Center for full accounting services;

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- i. On October 1, 2006, the PBGC deployed the Consolidated Financial System (CFS) as the financial management system of record. CFS integrated three stand-alone general ledgers into one application. The PBGC does have plans to upgrade subsidiary applications and interfaces in the coming years;
 - j. On October 1, 2006, the newly developed Consolidated Financial System became the financial management system of record for the PBGC. This new system integrated its three former general ledger systems - Trust Accounting, Performance Accounting, and Financial Reporting Systems, thus eliminating the need to perform extensive manual processes and adjustments to synchronize the data among the three systems;
 - k. TVA implemented a new general ledger and financial reporting system during 2008. Management determined after a cost-benefit analysis of programming and maintaining two general ledger systems, it would not pursue establishing a second, FASAB-based general ledger system;
 - l. The Department continually enhances its data warehouse. We are not planning on new system at this time; and,
 - m. The United States Mint converted from PeopleSoft to Oracle with ARC-BPD as a service provider for fiscal year 2007.
6. What suggestions can you offer that could potentially decrease the cost of converting to FASAB standards?
- a. Do not present the statements on a comparative basis for the conversion year;
 - b. Convert when the current manufacturing/financial system is being replaced;
 - c. Assure there is statutory authority and a compelling business case, including a positive cost benefit analysis, for making this conversion;
 - d. Provide adequate guidance and training;
 - e. Eliminate or reduce/modify the requirements of FASAB standards for government corporations.
 - f. Do not require federal corporations to perform budgetary accounting;
 - g. Clarify the applicability of all federal accounting standards, including SFFAS 2, to each entity;
 - h. Agencies that have proper controls in place and that are in compliance with A-123 will most likely have a lower cost of conversion;
 - i. Agencies that follow the USSGL guidance as required by FFMIA would likely realize a lower cost of conversion;
 - j. Train the Financial Management Line of Business providers and use their expertise to function as conversion process managers.
 - k. Provide for phased implementation with gradually increasing audit requirements;
 - l. Waive certain requirements in the first year that the financial statements would be audited, such as the requirement to prepare comparative financial statements;
 - m. Provide a detailed analysis of the differences between FASAB and FASB standards to assist agencies with understanding the differences and in complying with FASAB standards;

- n. Apply the materiality threshold at the consolidated level rather than the entity-level;
- o. “Grandfather” prior year financial data and adopt the federal accounting standards on a prospective basis;
- p. Recognize the enterprise accounting methodology allowed by the Governmental Accounting Standards Board for state and local governments;
- q. Consult with entities that have already converted to be able to apply best practices and lessons learned to ease the change; and,
- r. Do not require conversion to FASAB standards for those entities which currently use FASB standards because of the commercial nature of their business.

7. Do you have any other comments?

- a. In recent years, two Treasury components, the OCC and the U.S. Mint, have taken the initiative and successfully changed their financial reporting basis from in accordance with FASB standards to in accordance with FASAB standards. These conversions went relatively smoothly with few obstacles and were completed timely to allow for reporting using FASAB standards for the year conversion took place;
- b. Complete conversion of all component entities to FASAB GAAP has been a repeat Management Letter Recommendation by the Department's auditors. In April 2004 the Department's Office of Inspector General requested that FASAB consider requiring FASAB GAAP for the financial statements of all federal entities, unless there is a statutory or regulatory requirement to report on a different basis. Accordingly, the Department is very interested in an official position from FASAB on this issue;
- c. TVA would like to suggest that FASAB standards provide for the use of the consolidated materiality threshold when special purpose financial statements are prepared and provided to a consolidating entity for the preparation [and audit] of a set of consolidated financial statements.
- d. To transition from GAAP to federal GAAP would entail restating the prior period balance sheets as well as current year income and expenditures. Due to the fact that TVA has followed GAAP since 1938 and lacks FASAB GAAP records, it may not be possible to restate financial information in a manner which would pass audit scrutiny, due to a low likelihood of finding adequate historical transaction and accounting data to support the preparation of auditable financial statements.
- e. We hope that FASAB and OMB will evaluate each government corporation and entity individually when determining whether and when these entities should convert to FASAB standards. In addition, before a decision is made, we hope that FASAB and OMB will further consult with us on an individual basis, and perform additional analysis on the costs versus the benefits of requiring such a change. We hope that this change would not be for the sole purpose of making it easier for specific agencies to compile and report on the consolidated government-wide financial statements. We believe that much of this requirement is already addressed through the GFRS reporting to the Treasury Financial Management Service and OMB.
- f. Consider changing the Statement of Net Cost presentation to be more consistent with the FASB Income Statement
- g. FPI utilizes a revolving fund with treasury and receives no appropriations for operations. The FASB standards are more applicable for a self-sustaining entity.

The complete conversion to FASAB standards would not be practicable for FPI. The manufacturing and production processes are not supported in government reporting environment. The cost of implementing a satisfactory solution would exceed the dollar impact FPI has on the department statements.

- h. The FASAB statements such as statement of budgetary resources and statement of financing do not provide the best financial picture for entities that do not receive appropriated funds.
- i. The FASAB board should identify the specific information that they believe is not being provided in the FASB-based financial statements. Rather than just requiring that FASAB standards be met, the board should consider the possibility that much of this information could be provided as supplemental information to the FASB statements. As an example, there would most likely be different bases for some assets, so this supplemental information could include a reconciliation of FASAB-based net assets to FASB-based net assets.
- j. As a component of the DOE, BPA prepares quarterly and annual FASAB based schedules and FASAB-based financial information for inclusion in DOE's quarterly and annual financial statements. FASB GAAP financial statements information for BPA and the Corps are included in the FASAB schedules provided to DOE as accomplished through the provisions of Statement of Federal Financial Accounting Concept (SFFAC) 2, Entity and Display, as follows: "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."

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

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

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

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

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

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

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

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

During this evaluation, we determined there were no Federal software packages available that would meet the business and statutory reporting requirements of the enterprise. A commercial package developed in partnership with 2 vendors provided a solution that met reporting requirements, work management, and other operational needs. To convert to FASAB would require a complete overhaul of existing systems and processes to enable FASAB accounting, and would require additional effort each quarter to complete data conversions and crosswalks necessary to meet commercial reporting requirements. In addition, because BPA is not taxpayer funded and relies on the Northwest Ratepayers to recover our costs, the expense of a conversion would be an undue hardship on ratepayers, particularly in times where energy prices have such a dramatic effect on the local economies.

Update 8/14/09 - BPA operates under organic statutes with permanent and indefinite appropriations (without further appropriation and without fiscal year limitation, as specified in the Federal Columbia River Transmission System Act of 1974 (Transmission Act)). All receipts and outlays are deposited in and disbursed from the Bonneville Power Administration Fund. All costs of operations of the Federal Columbia River Power System (FCRPS) are recovered through rates charged to customers as established in BPA rate cases that are set in accordance with statute at the lowest possible rates to consumers consistent with sound business principles (as provided in the Flood Control Act of 1944 and the Transmission Act). BPA is ratepayer funded, rather than taxpayer funded. With the effects of the recent recession on electricity providers and their customers, interactions with customers have confirmed entities are experiencing hardships that will linger for years to come. Converting to a different set of standards for the preparation of the FCRPS financial statements and annual report is inconsistent with BPA's unique statutory framework and requirement for an independent commercial type audit and does not add benefit to the Pacific Northwest customers and ratepayers, who are ultimately responsible for paying for all BPA costs, particularly in the current economic environment.

In addition, we do not believe that a requirement for a change to FASAB standards would absolve BPA from preparing an annual report using FERC utility accounting standards. Under BPA's unique statutory framework, an independent commercial type audit is required. BPA operates in a business-like fashion and our organic statutes do not contemplate duplication by requiring an additional set of financial records prepared under a different basis of accounting, namely under FASAB standards. An additional layer of reporting requirements is inconsistent with providing low rates consistent with sound business principles. A second set of financial records would be expensive, unnecessary, and result in no additional benefit.

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

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

Update 8/14/09 – As indicated above, BPA is subject to the requirements of the Federal Power Act, including the preparation of accounts of operations according to the FERC Uniform System of Accounts. Without a clear understanding of the implications of assessing a mandate for FASAB standards to entities required by statute to comply with different standards, it is difficult and possibly futile to attempt an estimate of the impacts to financial systems, processes, practices, and procedures. In addition, the indefinable costs related to change management and the disruptions in operations would also contribute to the costs that are unquantifiable. Depending on the particular path to achieve the FASAB objectives, this effort may be as involved and complicated as an entire implementation of a new financial management system. This would be a very complex and expensive undertaking given other statutory reporting requirements.

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

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

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

We have no suggestions at this time.

7. Do you have any other comments?

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

Update 8/14/09 - BPA organic statutes provide various authorities granted to the BPA Administrator. Under organic statute and confirmed with the Chief Financial Officers Act through amendments to the Government Corporation Control Act (BPA is subject to the requirements of the GCCA as provided in the Transmission System Act), the Administrator is required to prepare and submit an annual report to the President and Congress covering the operations of the Federal Columbia River Power System (FCRPS). FCRPS financial statements combine the accounts of BPA, the Pacific Northwest generating facilities of the Army Corps of Engineers (Corps) and the U.S. Bureau of Reclamation, as well as the operation and maintenance costs of the U.S. Fish and Wildlife Service's facilities on the Lower Snake River. As previously indicated these statements are based on accounts of operations subject to the Federal Power Act (FERC accounting) in accordance with FASB GAAP.

In addition to preparing the FCRPS annual report, BPA is a Power Marketing Administration within the Department of Energy (DOE) with departmental reporting requirements. As a component of the DOE, BPA prepares quarterly and annual FASAB based schedules and FASAB based financial information for inclusion in DOE's quarterly and annual financial statements. The schedules and information include financial information for BPA and for "direct funded" costs of the Corps (parent/child transfer allocation as directed in OMB Circular A-136). FASB GAAP financial statements information for BPA and the Corps are included in the FASAB schedules provided to DOE as accomplished through the provisions of Statement

of Federal Financial Accounting Concept (SFFAC) 2, Entity and Display, as follows:

“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.”

Users of FCRPS financial statements are typical of those identified with for-profit business financial statements such as financial institutions, bondholders, investors, banking trade groups, lessors, and customers. BPA organic statute provides for financial statements in accordance with utility accounting by which numerous contractual arrangements are based. BPA has longstanding agreements with Energy Northwest (previously named the Washington Public Power Supply System) with regard to nuclear power plants in the Northwest and the BPA backing of construction bonds associated with those plants. BPA and Energy Northwest refinance Energy Northwest bonds as part of an overall Energy Northwest debt management program. As part of the bond offerings, underwriters require an Official Statement (OS), which furnishes prospective bond purchasers with disclosure regarding BPA's finances and operations. As part of the issuance of an OS, Bonneville must provide a statement that the OS is not materially misleading. The OS also includes FCRPS audited financial statements. These audited financial statements are prepared in accordance with FASB GAAP, and are audited and opined on by a public accounting firm (currently PricewaterhouseCoopers). This audit opinion may be incorporated into the OS only with the audit firm's prior consent. In addition, Continuing Disclosure Agreements issued as part of bond offerings require annual disclosure of BPA's financial position in accordance with Securities and Exchange Commission requirement under Rule 15c2-12.

Contractual arrangements with Slice customers (entities subscribed to purchase a percentage of the FCRPS hydro generation output, currently in excess of 22% of the total federal output), requires as part of the rate charged such customers a true-up provision for costs incurred throughout the year in relation to operating the hydro system. These true-ups are contractually based on FASB GAAP prepared financial statements. A change to the accounting standards will have impacts on these agreements and the basis for which the true-up is performed. Although not specifically identified in item 3 above, there is potential for additional costs resulting from litigation surrounding a change in the underlying provisions of the true-up or contract modifications needed to accommodate changes resulting from a change in standards.

In addition, as an update to the FASAB workshop materials, we believe it may be useful to consider information from BPA's response to a recent FASAB Exposure Draft that became the Statement of Federal Financial Accounting Standards 34, The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board. We believe questions identified in this exposure draft are relevant to the issue of standards and should be incorporated as part of the workshop materials.

Requested Information Regarding Person Completing Survey:

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

FASAB Survey – FASAB vs FASB

Background:

BPA operating under the reporting requirements of an entity subject to the Government Corporation Control Act (GCCA) and BPA organic statutes, is subject to reporting requirements that are unique from normal governmental operations. These statutes combined with other criteria provide that BPA operate under the generally accepted accounting principles as promulgated by the Financial Accounting Standards Board (FASB). Financial statements issued through BPA encompass the Federal Columbia River Power System (FCRPS)

BPA, as required under organic statute, operates in the electric utility industry as a not for profit entity that is fully financially supported by Northwest ratepayers, rather than an entity reliant upon appropriations via the Federal taxpayer. As codified in 16 United States Code (U.S.C.) 825s, BPA rate schedules are developed to recover the costs of producing and transmitting electric energy generated at FCRPS facilities. In addition, 16 U.S.C. 838g provides the requirements for cost based rates at the lowest rate. The BPA has a permanent and indefinite appropriation, in that the administrator may make expenditures from the BPA fund without further appropriation and without fiscal year limitation [16 USC § 838i(b)].

Under the Bonneville Project Act (16 U.S.C. §§ 832, *et seq.*), BPA is required to keep complete and accurate accounts of operations consistent with the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts (USoA), as found in 18 CFR, Part 101, and to obtain an "independent commercial type audit" of such accounts.

Under the Grand Coulee – Third Powerhouse Act (16 U.S.C. 835j, *et seq.*), BPA files a consolidated financial statement for the Federal Columbia River Power System (FCRPS). The FCRPS combines the accounts of the BPA, the accounts of the Pacific Northwest generating facilities of the U.S. Army Corps of Engineers (Corps) and the Bureau of Reclamation (Reclamation) and the operation and maintenance costs of the U.S. Fish and Wildlife Service for the Lower Snake River Compensation Plan Facilities.

The USoA were established for reporting financial information related to utility operations. This system of accounts applies to agencies of the United States engaged in the generation and sale of electric energy for ultimate distribution to the public, so far as may be practicable, in accordance with applicable statutes.

Under the Transmission System Act (16 U.S.C. §§ 838, *et seq.*) FCRPS financial reports are subject to the GCCA (31 U.S.C. §§ 9101, *et seq.*), including the audit and management reports requirements under sections 9105 and 9106, respectively. To meet these requirements BPA completes an annual report pursuant to the GCCA and submits its report directly to the President and Congress. The annual management report consists of a Management Discussion and Analysis section; a statement of financial position; a statement of operations; a statement of cash flows; notes to the financial statements' statement on internal accounting and administrative control systems consistent with requirements of CFO agencies reporting under FMFIA; and the report of the audit of the financial statements.

Finally, BPA and Energy Northwest refinance Energy Northwest bonds as part of an overall Energy Northwest debt management program. As part of the bond offerings, underwriters require an Official Statement (OS), which furnishes prospective bond purchasers with disclosure

regarding BPA's finances and operations. As part of the issuance of an OS, Bonneville must provide a statement that the OS is not materially misleading. The OS also includes FCRPS audited financial statements. These audited financial statements are prepared in accordance with FASB GAAP, and are audited and opined on by a public accounting firm (currently PricewaterhouseCoopers). This audit opinion may be incorporated into the OS only with the audit firm's prior consent. Financial statements prepared under FASB GAAP provides 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.

The foregoing directives and business requirements, separately and taken as a whole, are indicative of the requirement that BPA follow generally accepted accounting principles in its accounting and financial reporting practices, as promulgated by the Financial Accounting Standards Board (FASB). The FASB is recognized by the Securities and Exchange Commission (SEC) and the American Institute of Certified Public Accountants (AICPA) as the authoritative entity for the establishment of accounting principles and standards for use in preparation of financial statements for public accounting and reporting. Since 1985 BPA has received an unqualified opinion from its auditors using the standards as promulgated by the FASB.

Although subject to the requirements of the GCCA, BPA is an entity within the Department of Energy (Department). The Department is an Executive agency within the Federal government that was created as a result of the Department of Energy Organization Act of 1977. The Department is comprised of a number of organizations including 4 Power Marketing Administrations (PMA's). BPA as a PMA is an integral part of the Department. As such, BPA has provided information to the Department to enable consolidated Department financial statements. BPA is a component of the Department of Energy, one of the 24 CFO reporting entities that are subject to this the CFO Act. BPA's financial accounting records are based on FASB GAAP and Federal Energy Regulatory Commission requirements, yet the Department is subject to GAAP for federal entities.

More information concerning facts about BPA operations can be found using "BPA Fast Facts" located at the following website:

www.bpa.gov/corporate/about_BPA/Facts/FactDocs/BPA_Facts_2006.pdf



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

FINANCE

FEB 13 2009

In reply refer to: FRS-2

MEMORANDUM FOR WENDY M. PAYNE, EXECUTIVE DIRECTOR
FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

FROM: DAVID J. ARMSTRONG
EXECUTIVE VICE PRESIDENT
AND CHIEF FINANCIAL OFFICER

A handwritten signature in blue ink, reading "David J. Armstrong", is written over the typed name and title.

SUBJECT: BPA RESPONSE TO EXPOSURE DRAFT ON HIERARCHY OF
GAAP FOR FEDERAL ENTITIES

Thank you for the opportunity to comment on the exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled, "The Hierarchy of Generally Accepted Accounting Principles for Federal Entities, Including the Application of Standards Issued by the Financial Accounting Standards Board."

Bonneville Power Administration (BPA) requests the Board to consider the statutory and legislative requirements placed upon federal entities operating as commercial-like enterprises subject to reporting requirements that are unique in the federal government.

Thank you again for your consideration of our comments. Our aim is to continue to deliver on our public responsibilities through a commercially successful business.

Enclosure

cc:
R Loyd – CF-12

Hierarchy of Generally Accepted Accounting Principles

- Q1. This Exposure Draft (ED) proposes to incorporate the hierarchy of generally accepted accounting principles (GAAP) that currently resides in the professional auditing literature into the FASAB's authoritative literature. Do you agree or disagree with the hierarchy presented in the Exposure Draft (see paragraphs 5 - 8)? Please explain the reasons for your position in as much detail as possible.
- A1. Bonneville Power Administration agrees with the proposal to incorporate the hierarchy of generally accepted accounting principles (GAAP) that currently resides in the professional auditing literature into the FASAB's authoritative literature.

Application of Standards Issued by the Financial Accounting Standards Board

- Q2. This ED proposes to regard general purpose financial reports prepared in conformity with accounting standards issued by the Financial Accounting Standards Board (FASB) as being in conformity with GAAP for those federal entities that have in the past issued such reports (see paragraph 9). Do you agree or disagree with the Board's position? Please explain the reasons for your position in as much detail as possible. To help you in preparing your response, a listing of some of the entities that apply FASB standards as well as some of the areas where differences occur is included in Appendix C: Examples of Federal Entities that Apply FASB Standards.
- A2. Bonneville Power Administration agrees that general purpose financial reports prepared in conformity with accounting standards issued by the Financial Accounting Standards Board (FASB) are in conformity with GAAP for those federal entities that have in the past issued such reports. Bonneville Power Administration believes that the standards set for general purpose financial reports for federal entities should be consistent with legislation and statutes established by Congress in accordance with the legislative process.

As a Public Enterprise fund, Bonneville Power Administration is a self-funding agency that covers its costs by selling power, transmission and related services in accordance with legislative requirements while operating as a utility in a regulated industry. Bonneville Power Administration prepares FASB based reports for the Federal Columbia River Power System (FCRPS) and FASAB based schedules for Bonneville Power Administration. Bonneville Power Administration FASAB schedules are integrated with the Department of Energy's (DOE) financial statements.

FCRPS financial statements combine the accounts of Bonneville Power Administration, the Pacific Northwest generating facilities of the Army Corps of Engineers and the U.S. Bureau of Reclamation, as well as the operation and

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maintenance costs of the U.S. Fish and Wildlife Service's facilities on the Lower Snake River. FCRPS FASB based financial statements are prepared to meet statutory reporting requirements and are consistent and comparable with the reporting standards of the regulated utility industry. Bonneville Power Administration is "subject to" the Government Corporation Control Act. Bonneville Power Administration issues FASB based financial statements under the FCRPS entity to fulfill the Administrator's statutory reporting requirements. Also, Bonneville Power Administration prepares official statements required for financial backing of bonds that comply with FASB GAAP, which are sold in support of commercial operations.

As a part of the Department of Energy, BPA prepares quarterly and annual FASAB based schedules and FASAB based financial information for inclusion in DOE's quarterly and annual financial statements. The schedules and information include financial information for Bonneville Power Administration and for "direct funded" costs of the Army Corps of Engineers.

Bonneville Power Administration requests the insertion of the bolded text into paragraph 9 of the exposure draft:

"Some federal entities, including government corporations listed in, **or subject to** the Government Corporation Control Act and certain others, such as the United States Postal Service, **will** continue to publish financial reports pursuant to the accounting and reporting standards issued by the FASB **or future standard setting body as a replacement for FASB.**"

- Q3. This ED proposes to clarify that a federal entity that is preparing GAAP-based financial statements for the first time is required to implement FASAB standards unless the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards (see paragraphs 10 and 11). Do you agree or disagree with the Board's position? Please explain the reasons for your position in as much detail as possible.
- A3. Bonneville Power Administration agrees that a federal entity that is preparing GAAP-based financial statements for the first time is required to implement FASAB standards unless the entity is a government corporation listed in, or subject to the Government Corporation Control Act or otherwise required in statute or legislation to apply GAAP other than FASAB, or clearly demonstrates that the needs of its primary users would be best met through the application of GAAP other than FASAB standards.

The Board would greatly appreciate your responses to the following questions to aid in the Board's future deliberations on its companion project on reporting by federal entities that primarily apply standards issued by the FASB. Further information on this project may be found in paragraphs A7 through A16 of Appendix A: Basis for Conclusions and on the FASAB website at <http://www.fasab.gov/projectsgaap.html>.

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- Q4. The Board has tentatively decided that no federal entities will be required to convert to FASAB standards for their stand-alone general purpose financial reports at this time; however, the Board is considering whether additional reporting may be required in order to meet the objectives of federal financial reporting (e.g., budgetary reporting, cost accounting, management's discussion and analysis). What FASAB reporting requirements are you aware of that would complement or enhance current reporting by federal entities following FASB standards (see paragraphs A8 through A12 of Appendix A: Basis for Conclusions)? Please explain the reasons for your position in as much detail as possible.
- A4. Bonneville Power administration does not believe that additional reporting would enhance current reporting and should not be required.
- Q5. As noted in the previous question, the Board has tentatively decided that no federal entities will be required to convert to FASAB standards for their stand-alone general purpose financial reports at this time; however, the Board is considering whether information provided by these entities to a parent agency or the U.S. Department of the Treasury for the consolidated financial report of the U.S. Government (CFR) should conform with accounting and reporting principles issued by the FASAB where there are material differences between the two sources (see paragraphs A13 through A15 of Appendix A: Basis for Conclusions). Do you agree or disagree that the information provided for consolidated financial reports should conform to FASAB accounting and reporting standards? Please explain the reasons for your position in as much detail as possible.
- A5. Bonneville Power Administration believes that the FASAB should recognize the unique nature of federally owned public enterprises, which are generally intended to operate in a business-like manner. FASAB should include within its standards those FASB guidelines that address the commercial-like nature of these public enterprises, especially those that operate within a regulated industry. Until such time, the FASAB standard alone and as currently written would not permit such public enterprises to meet their reporting requirements as a commercial-like enterprise.

Bonneville Power Administration agrees that the information provided for consolidated financial reports should conform to FASAB accounting and reporting standards at the consolidated level of the parent entity. However, if FASAB were to require public enterprises to report under a single reporting standard, Bonneville Power Administration would not be able to meet its statutory requirements to report the financial results of the FCRPS for its ratepayers and bond holders.

- Q6. Do you have a current opinion on whether federal entities that report in conformance with FASB standards should be permitted to convert to International Financial Reporting Standards (IFRS), given the discussions regarding whether public companies should use IFRS (see paragraph A16 of Appendix A: Basis for

Conclusions)? Please explain the reasons for your position in as much detail as possible.⁴

- A6. Bonneville Power Administration agrees that federal entities that prepare GAAP-based financial statements in accordance with standards other than FASAB should be permitted to continue to prepare GAAP-based financial statements in accordance with the standard setter recognized for commercial enterprises.

While there is currently insufficient information to determine whether public companies will be required to comply with IFRS, Bonneville Power Administration's position is to continue to file in accordance with standards for commercial enterprises operating in the utility industry, whether that be the FASB or IFRS. Absent legislative action Bonneville Power Administration's statutory requirement to obtain a commercial-type audit remains under either standard.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Do you have any other comments?

No additional comments

Requested Information Regarding Person Completing Survey:

First and Last Name: Leonard R. Olijar

Agency Name: Bureau of Engraving and Printing

Position Title: Chief Financial Officer

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

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

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

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

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

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

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

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

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

No.

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

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

7. Do you have any other comments?

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

Requested Information Regarding Person Completing Survey:

First and Last Name: Larry Green

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

Position Title: Deputy Chief Financial Officer

Julia E Ranagan - 4/16/07 FAX

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

Julia,

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

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

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

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

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

If you have additional questions my email address is c.bates@cncsoig.gov and phone number is 202-606-9356.

Carol Bates
Assistant Inspector General for Audit

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

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

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

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

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

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

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

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

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

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

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

N/A. There are no costs.

7. Do you have any other comments?

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

Requested Information Regarding Person Completing Survey:

First and Last Name: David Legge

Agency Name: Department of the Treasury

Position Title: Assistant Director for Accounting



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

April 20, 2007

MEMORANDUM

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

No.

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

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

7. Do you have any other comments?

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

Requested Information Regarding Person Completing Survey:

First and Last Name: Vanessa L. Hester

Agency Name: Federal Deposit Insurance Corporation

Position Title: Manager, Accounting and Tax Policy

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Do you have any other comments?

No.

Requested Information Regarding Person Completing Survey:

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Do you have any other comments?

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

Requested Information Regarding Person Completing Survey:

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

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

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

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

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

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

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

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

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

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

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

would need to be developed and deployed.

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

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

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

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

7. Do you have any other comments?

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

Requested Information Regarding Person Completing Survey:

First and Last Name: Craig Henderson

Agency Name: Federal Prison Industries

Position Title: Deputy Controller

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Do you have any other comments?

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

Requested Information Regarding Person Completing Survey:

First and Last Name: Sophila Jones

Agency Name: Department of Justice OIG

Position Title: Asst. Director Financial Statement Audit

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Please see additional costs discussion in 3 above.

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

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

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

We do not have any to offer at this time.

7. Do you have any other comments?

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

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

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

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

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

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

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

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

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

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

Requested Information Regarding Person Completing Survey:

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

Agency Name: Government National Mortgage Association

Position Title: Senior Vice President, Office of Finance

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

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

Subject: Request for Cost/Burden Information

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

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

Attachment 1

Request for Cost/Burden Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Do you have any other comments?

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

Requested Information Regarding Person Completing Survey:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Do you have any other comments?

None.

Requested Information Regarding Person Completing Survey:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Do you have any other comments?

No additional comments

Requested Information Regarding Person Completing Survey:

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

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

The Pension Benefit Guaranty Corporation (PBGC) believes there are several distinct differences between accounting standards promulgated by the Federal Accounting Standards Advisory Board (FASAB) and the Financial Accounting Standards Board (FASB), as summarized below.

(1) Principal Statements - FASAB and Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements (A-136) would require the PBGC to prepare and present three additional statements, including the Statement of Net Cost, Statement of Budgetary Resources, and the Statement of Custodial Activity. In addition, there could be some classification differences, such as how PBGC reports cash and cash equivalents. On the other hand, the PBGC would have to weigh the benefit to a large segment of its user community and the cost of continuing to prepare the Statement of Cash Flows which is not required by FASAB standards and A-136.

(2) Footnote Disclosures - Based on a cursory review of the list of Notes to the Financial Statements contained in A-136, there are approximately nine additional footnote disclosures that the PBGC would have to prepare, most notably the reconciliation of Net Cost of Operations (proprietary) to Budget which is a former principal statement known as the Statement of Financing. Conversely, there are footnote disclosures in the PBGC's financial statements that are not covered by FASAB standards and A-136, such as Statement of Financial Accounting Standards (SFAS) 157, Fair Value Measurements. Again, the PBGC would have to weigh the cost of continuing to disclose information that is useful to the defined benefit pension plan community, but not required by the FASAB or A-136.

(3) Required Supplementary Stewardship Information (RSSI) & Required Supplementary information (RSI) - It appears that PBGC would have additional work to address the reporting requirements in A-136 for RSSI and RSI.

(4) Performance and Accountability Report - A more detailed assessment would be needed to identify the differences in the form and content prescribed by A-136 and the information presented in the PBGC's Annual Report.

(5) Specific Accounting Standards - While a detailed analysis would have to be conducted to determine the quantitative differences, there may be some differences between FASAB standards and the following FASB standards followed by PBGC:

- Statement of Financial Accounting Standards (SFAS) No. 5, Accounting for Contingencies - there are distinctions in this standard that could result in differences in how PBGC accounts for contingent liabilities.
- SFAS 35, Accounting and Reporting by Defined Benefit Pension Plans - Investment portfolio valuation (Mark to market adjustments) are not covered presently by the FASAB.

In addition, the PBGC would have to assess any differences that might arise by transitioning to the International Financial Reporting Standards.

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

The PBGC does not see any significant benefit in converting to FASAB standards.

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

The PBGC sees several drawbacks to converting to FASAB standards, as summarized below.

- User community - Beyond the Administration, U.S. Congress, OMB, Treasury, GAO and other Federal counterparts, sponsors of defined benefit pension plans, plan administrators and practitioners, participants and their beneficiaries have a unique interest in the PBGC's financial statements. This user community is accustomed to and knowledgeable about the private sector format, content, and accounting standards used to prepare the PBGC's financial statements since 1974. We believe a transition to FASAB standards would be a significant change to the format, content and underlying principles used to prepare the financial statements and would be disruptive and counter-transparent for many years to a large and important sector of PBGC's financial statement user community.
- Consistency – PBGC has been preparing financial statements using accounting standards promulgated by the FASB since it was established in 1974 pursuant to the Employee Retirement Income Security Act. A significant change to the format, content and underlying principles used to prepare the financial statements would disrupt the consistent and historical financial information presented in the PBGC's financial statements.
- Unqualified opinion - The PBGC has received an unqualified opinion on its financial statements for the past 16 years. The transition period (several years) to prepare financial statements using FASAB accounting standards and A-136 could put the PBGC at an increased risk of jeopardizing this run of unqualified opinions.
- Cost – The PBGC estimates that it would take several years and several million dollars to make a complete transition to preparing its financial statements using FASAB standards. Also, it is difficult to measure the cost to PBGC's defined benefit pension plan user community.
- Cost vs. Benefits - Beyond what's noted above, PBGC does not see any direct benefits that the Corporation or the users of the financial statements could achieve by converting to FASAB standards. The standards prescribed by FASAB do not appear to specifically address accounting events and/or transactions, which have a material affect on the accounting and reporting for the PBGC. PBGC is a unique federal government agency, in the sense that we do not obtain funds from appropriations and/or tax revenue, therefore PBGC's accounting and reporting surrounds factors such as the collection of premiums, valuation of plan assets and investments in which FASAB does not appear to specifically address or provide detailed guidance in its standards. Further, PBGC has a significant amount of investments in various financial instruments (i.e. securities and derivatives) and

relies heavily on fair value accounting, which is also not specifically addressed in the FASAB standards. We believe that if the Corporation converts to utilizing FASAB standards we would ultimately have to look to guidance provided by FASB standards to address the unique accounting and reporting needs of the Corporation. Based on this, we believe the benefits from converting to FASAB are very limited and the benefits do not seem to outweigh the related costs. Furthermore, we do not believe that converting to FASAB will provide any additional useful information to our decision makers/users of our financial statements or enhance user specific qualities (i.e. understandability, decision usefulness) or primary decision specific qualities (i.e. relevance, reliability).

- Readiness – The PBGC has not conducted a thorough assessment of what it would take to prepare its financial statements using FASAB standards and the form and content prescribed in A-136 for a Performance and Accountability Report.

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

The PBGC has not completed a thorough analysis of what it would take to prepare its financial statements using FASAB standards. The PBGC would have to acquire and develop staff with the knowledge and skills necessary to make the transition to prepare its financial statements using a different set of accounting standards. Rough estimates of the time and cost to make this transition would be several years and between one to three million dollars per year, excluding the additional costs that may be incurred by the Office of Inspector General to conduct its audit. In all likelihood, the PBGC would have to ask the U.S. Congress and OMB for additional funding for this effort.

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

On October 1, 2006, the PBGC deployed the Consolidated Financial System (CFS) as the financial management system of record. CFS integrated three stand-alone general ledgers into one application. The PBGC does have plans to upgrade subsidiary applications and interfaces in the coming years.

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

The PBGC offers several suggestions that might help alleviate the cost of implementation, as described below.

Phased implementation – Aside from allowing agencies the time to fully implement FASAB standards, there could be a planned approach whereby agencies would: (1) have one to two years to plan for the transition; (2) have a schedule to prepare, but not be subject to audit, one of the additional principal statements per year until they are able to prepare a complete set of financial statements using FASAB Standards that would be subject to audit.

Waivers – Waive certain requirements in the first year that the financial statements would be

audited, such as the requirement to prepare comparative financial statements.

Gap Analysis – FASAB could provide a detailed analysis of the differences between FASAB and FASB standards to assist agencies with understanding the differences and in complying with FASAB standards.

7. Do you have any other comments?

We hope that the FASAB and OMB will evaluate each government corporation and entity individually to determine whether and when these entities would convert to FASAB standards. In addition, we hope that the FASAB and OMB will allow affected agencies to prepare a more detailed cost and benefit analysis before a requirement to use FASAB standards would be imposed by FASAB and OMB. We hope that this change would not be for the sole purpose of assisting specific agencies in compiling and reporting on the consolidated government-wide financial statements because we believe that much of this requirement is already addressed through the GFRS reporting to the Treasury.

Requested Information Regarding Person Completing Survey:

First and Last Name: Patricia Kelly
Agency Name: Pension Benefit Guaranty Corporation
Position Title: Chief Financial Officer

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Do you have any other comments?

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

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

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

Requested Information Regarding Person Completing Survey:

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

Requested Information Regarding Person Completing Survey:

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

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

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

	FASB	FASAB
1	Financial statements include balance sheet and statements of income, cash flows, and changes in proprietary capital.	Financial statements include balance sheet, statements of net cost, financing, budgetary resources, changes in net position, and program performance measures (SFFAC 2).
2	Annual payments to the federal government representing a return of equity and a return on equity reduces proprietary capital and does not reduce income in the period paid.	Annual payments to the federal government representing a return of and a return on appropriated funds are accounted for as an expenditure in the statement of net cost or a transfer in the statement of changes in net position.
3	Formal accounting and disclosure of deferred maintenance cost is not required.	Deferred maintenance cost is disclosed.
4	Loan impairment assessed when probable that contractual amounts won't be collected.	Subsidy expense recognized at loan inception.
5	Loan origination costs are deferred and amortized over the life of the loan as an adjustment of loan yield.	Loan origination costs are expensed.
6	Operating materials and supplies are recorded at lower of cost or market reflecting appropriate loss of utility.	Operating materials and supplies are recorded at historical cost.
7	The cumulative effect of a change in estimate of the amount of an asset retirement obligation is expensed in the year of the change in estimate to the extent it applies to the current year, and the remaining amount is spread out over future periods.	The cumulative effect of a change in estimate of the amount of an asset retirement obligation is expensed in the year the estimate is revised. While SFFAS No. 6 addresses clean-up costs, there are different perspectives between SFAS 143 and SFFAS No. 6 in the recognition of and accounting for "AROs."

8	Changes in accounting principle are recorded as a cumulative effect resulting in the restatement of balances in the earliest period presented.	Changes in accounting principle are recorded as a cumulative effect resulting in the restatement of only the beginning balances of the current period.
9	The pension liability is reported net of assets held in trust. The liability is calculated using the projected unit credit cost method which projects the benefit based on service, but uses the final average projected compensation, social security benefits and other relevant facts projected to the age the employee leaves active service. Expense is smoothed to amortized actuarial gains or losses over the remaining service period of employees. Unamortized actuarial gains and losses are either recorded in equity or as a regulatory asset. The discount rate used is based on high-quality long-term corporate bonds.	The pension liability is reported gross. It is calculated using the aggregate entry age normal actuarial cost method. Expense includes all actuarial gains and losses and disclosure of the breakout of these between experience versus assumption changes is required. The discount rate must be based on U.S. Treasury rates.
10	The ORB is calculated using a discount rate based on high-quality long-term corporate bonds. The health care cost trend rate used is consistent with the industry norm, but does not match Medicare projections.	The ORB is calculated using a discount rate based on U.S. Treasury rates. The health care cost trend rate is consistent with Medicare projections.

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

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

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

Generating FASAB-based financial statements would be inefficient and significantly increase TVA's financial accounting and reporting costs, as well as audit costs. Since TVA is self-funded and receives no federal appropriations, these added costs would ultimately be passed on to the rate payers in the form of higher electricity costs. These rate payers would not use the FASAB based statements since the rates are designed to cover FASB expenses, but would have to bear the costs.

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

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

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

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

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

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

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

(4) The cost to obtain actuarial calculations in accordance with FASAB is estimated to be \$200,000 annually.

The total cost to implement FASAB standards is estimated to be \$2,700,000 in the year of implementation and \$1,700,000 per year thereafter.

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

TVA implemented a new general ledger and financial reporting system during 2008. Management determined after a cost-benefit analysis of programming and maintaining two general ledger systems, it would not pursue establishing a second, FASAB-based general ledger system.

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

In January 2003, the FASAB issued Statement of Federal Financial Accounting Standards No. 24--*Selected Standards for the Consolidated Financial Report of the United States Government* which states that most Statements of Federal Financial Accounting Standards (SFFAS) do not indicate whether the standard applies to the Government as a whole, or components thereof, or both. This standard clarifies that all parts of all SFFAS apply to all Federal entities (including the consolidated entity), unless a standard specifically provides otherwise, or a provision is made for different accounting treatment in a current or subsequent SFFAS. It also states that the provisions of this accounting standard need not be applied to immaterial items.

If a provision was made to apply the materiality threshold at the consolidated level, in TVA's case, at the government-wide rather than the entity-level, this potentially could prevent TVA from having to keep two sets of accounting records and facilitate obtaining an audit opinion on the special purpose financial statements. With a higher materiality threshold, the differences between the FASB and FASAB statements for TVA would likely be immaterial. The external auditors could potentially rely on the audit of the FASB-based financial statements to opine on the special purpose financial statements and reduce time and expense of otherwise performing a separate audit.

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

Another more cost effective option would be for the federal government to recognize the enterprise accounting methodology allowed by the Governmental Accounting Standards Board for state and local governments. This methodology allows the activity of certain governmental entities to be treated much like a business enterprise because the entity is expected to be self-supporting and to have an ongoing independent revenue source. This second option captures the essence of the TVA Act which requires TVA to conduct business

as a corporation—charging rates for power which, among other things, will produce revenues sufficient to provide funds for operation, maintenance, and administration of its power system.

7. Do you have any other comments?

TVA would like to suggest that FASAB standards provide for the use of the consolidated materiality threshold when special purpose financial statements are prepared and provided to a consolidating entity for the preparation [and audit] of a set of consolidated financial statements.

The reason TVA is likely a significant entity to the government-wide statements is the amount of its property, plant and equipment. With the amendment of SFFAS No. 6, which now allows composite depreciation, the impact caused by differences between the FASAB and FASB standards has been reduced for TVA to an amount which may prove immaterial at the government-wide consolidated level. If TVA and its auditors could apply the government-wide consolidated materiality threshold to TVA's special purpose statements, TVA could potentially receive a timely opinion on these statements for the Closing Package.

One of the characteristics that distinguishes TVA from the majority of other federal entities is that TVA is not funded by appropriations. TVA is charged by the government to be self-supporting and therefore conducts business in a manner more comparable to investor-owned utilities than to a traditional government agency. This includes preparation of annual financial statements based on accepted utility accounting which either external auditors or government auditors have examined and opined on since 1939 according to generally accepted accounting principles. Following the FASAB standards may not adequately support the accounting for specialized entities or give a fair presentation of results of operations. To restate TVA's financial statements and disregard the accounting principle underlying SFAS No. 71, matching revenues and expenses in similar periods, would be inappropriate.

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

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

To transition from GAAP to federal GAAP would entail restating the prior period balance sheets as well as current year income and expenditures. Due to the fact that TVA has followed GAAP since 1938 and lacks FASAB GAAP records, it may not be possible to restate financial information in a manner which would pass audit scrutiny, due to a low likelihood of finding adequate historical transaction and accounting data to support the preparation of auditable financial statements. External auditors would have difficulty in opining on the

restated balance sheets for entities like TVA which have been in existence over 70 years and which have followed FASB accounting. Most auditors would not be able to opine on the statements. To require TVA to issue a second set of financial statements would be confusing to investors and financial analysts especially since the information reported could be misleading and impair TVA's ability to obtain financing at favorable terms in the public capital markets.

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

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

Requested Information Regarding Persons Completing Survey:

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

First and Last Name: Donna J. Terzak

Agency Name: Tennessee Valley Authority

Position Title: Manager, Financial Reporting

First and Last Name: Louise B. Beck

Agency Name: Tennessee Valley Authority

Position Title: Manager, Audit Quality and Assurance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Do you have any other comments?

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

Requested Information Regarding Person Completing Survey:

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

MEMORANDUM OF UNDERSTANDING BETWEEN



U. S. Treasury
Bureau of the Public Debt

March 20, 2007

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

Introduction

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

Background

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

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

Discussion of Resolution

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

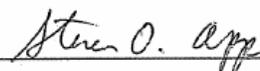
Conclusion

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

Signatory Authority

I agree to the terms of this Memorandum of Understanding.

FDIC Official

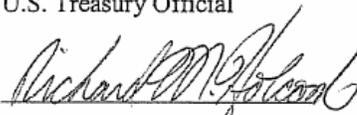


Steven O. App

Chief Financial Officer

Date: 4-4-07

U.S. Treasury Official



Richard M. Holcomb

Acting Chief Financial Officer

Date: 03-22-07

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Do you have any other comments?

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

Requested Information Regarding Person Completing Survey:

First and Last Name: Mike Fitzgerald

Agency Name: Department of the Treasury Office of Inspector General

Position Title: Director, Financial Audits

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

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

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

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

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

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

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

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

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

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

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

The United States Mint incurred minimal cost to convert from FASB to FASAB. Most of the

cost we incurred resulted from closing out old Purchase Orders so that we could have accurate Undelivered Orders balance.

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

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

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

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

7. Do you have any other comments?

None

Requested Information Regarding Person Completing Survey:

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

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

The Postal Service acts similarly to a commercial entity; therefore, we use commercial accounting rules and report according to FASB standards. Consequently, we neither require nor possess the FASAB expertise that would equip us to identify and comment on all differences between reporting under FASAB standards and FASB standards. However, we are aware that the Postal Service does not have any funds allocated for such major categories as Heritage assets, Stewardship assets or earmarked funds, and as a result there are no major differences between FASAB accounting and GAAP accounting in these areas.

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

The Postal Service is not aware of any additional FASAB reporting requirements that would enhance our financial reporting. Due to the commercial nature of our operations, which are essentially fully-funded by postage rates, budgetary reporting is of little relevance. We already report MD&A in accordance with SEC guidelines. Any additional reporting requirements would place additional burden on financial statement preparers and potentially adversely impact the timeliness of our reporting.

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

As stated above, the Postal Service acts similarly to a commercial entity; accordingly, we use commercial accounting (i.e. reporting under FASB GAAP). We are required by the law to prepare quarterly and annual financial reports in accordance with the rules and regulations of the SEC. Similar to a commercial entity, we collect revenues and are essentially fully funded by these revenues. We do not have the need, unique to government, for accounting for appropriations; neither do we have the need to use fund accounting. Given the nature of our work, adopting FASAB standards would not be relevant to our needs. Neither would such an adoption benefit many of our stakeholders, such as the Postal Regulatory Commission and the mailing community at large, who are accustomed to our use of GAAP and to our reporting under SEC guidelines. On the contrary, the adoption of FASAB standards is seen as a costly option that could require significant changes to our accounting systems, the retraining of personnel and also of the users of our financial statements.

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

The Postal Service does not currently have a basis for estimating the incremental costs of implementing FASAB standards for its accounting and reporting. However, we do anticipate that we would be required to complete significant changes around our general ledger system and, to retrain all our accountants as well as the users of our financial statements. These significant new costs would be incurred to provide statements that are not as relevant to the private sector stakeholders who are accustomed to using FASB standards. In addition, since we are required by law to follow SEC guidelines and use FASB standards for reporting to our

regulator, the Postal Regulatory Commission implementing FASAB reporting would essentially require us to keep "two sets of books".

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

We are not planning any conversions to our financial reporting modules in the near future.

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

The Postal Service recommends that the FASAB Board not require that those entities which currently use FASB standards because of the commercial nature of their business to convert to FASAB standards.

7. Do you have any other comments?

The Postal Service believes that the FASAB needs to consider carefully the potential cost/benefits to each individual entity of a required conversion to FASAB standards, particularly those for which FASAB standards do not appear to be appropriate to the nature and requirements of their work.

Requested Information Regarding Person Completing Survey:

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

First and Last Name: Stephen J Nickerson
Agency Name: United States Postal Service
Position Title: Manager, Corporate Accounting

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Enclosure 3

**Summary of
September 22, 2009,
Meeting with
Export–Import Bank**

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**Summary of Meeting with
Joseph Sorbera, Vice President and Controller
Export-Import Bank of the United States**
811 Vermont Ave, NW, Washington, DC
Tuesday, September 22, 2009

Background

The Export-Import Bank of the United States (Ex-Im) is an independent executive agency and a wholly owned U.S. government corporation that was first organized as a District of Columbia banking corporation in 1934. Ex-Im is the official export-credit agency of the United States. Ex-Im Bank's operations subsequent to September 30, 1991, are subject to the provisions of the Federal Credit Reform Act (FCRA) of 1990 (P.L. 101-508), which became effective October 1, 1991. The Export-Import Bank Reauthorization Act of 2006 extended the Bank's charter until September 30, 2011.¹

Ex-Im supports the financing of U.S. goods and services in international markets, turning export opportunities into actual sales that help U.S. companies of all sizes to create and maintain jobs in the United States. Ex-Im assumes the credit and country risks that the private sector is unable or unwilling to accept. Ex-Im also helps U.S. exporters remain competitive by countering the export financing provided by foreign governments on behalf of foreign companies. More than 80 percent of Ex-Im's authorizations in recent years have been made available for the direct benefit of U.S. small businesses.²

Ex-Im is one of the 35 agencies required to verify and submit a closing package and provide CFO representations for federal intragovernmental activity and balances because it has been identified as material to the consolidated financial report of the U.S. government (CFR).³

Prior to fiscal year 2006, Ex-Im prepared and presented its financial statements in conformance with generally accepted accounting principles (GAAP) for nongovernmental entities issued by the Financial Accounting Standards Board (FASB).

To support its closing package submission to the CFR, which is presented in conformance with GAAP for federal entities issued by FASAB, Ex-Im began presenting a reconciliation between its FASB GAAP-based financial statements and FASAB GAAP financial statements in the notes to its 2001 financial statements.

Ex-Im fully converted to FASAB GAAP beginning with its fiscal year 2006 financial statements.

Refer to Attachment 1 for Ex-Im's fiscal year 2005 FASB-based financial statements, which include a note reconciliation between FASB GAAP and FASAB GAAP, and Attachment 2 for its fiscal year 2006 FASAB-based financial statements.⁴

¹ Ex-Im Annual Report 2008, Note 1, pg. 53; available at http://www.exim.gov/about/reports/ar/ar2008/ExIm_AR.08.html; last accessed September 23, 2009

² Ex-Im Annual Report 2008, Mission Statement, pg. 2

³ Treasury Financial Manual, Part 2, Chapter 4700, pg. 3; available at <http://www.fms.treas.gov/tfm/vol1/y1p2c470.pdf>; last accessed September 23, 2009

⁴ All Ex-Im annual reports from 1997 through 2008 are available at <http://www.exim.gov/about/reports/ar/>; last accessed September 23, 2009

Summary of Meeting

Julia Ranagan, project manager, met with Mr. Joseph Sorbera, Vice President and Controller of Ex-Im, at 1:00 PM on Tuesday, September 22, 2009. The meeting lasted approximately 45 minutes.

Primary Driver for Converting to FASAB

Ms. Ranagan asked Mr. Sorbera what were Ex-Im's primary drivers for switching from FASB to FASAB standards. Mr. Sorbera responded that the primary driver was disagreement with the auditor's interpretation of FASB Interpretation Number (FIN) 46, *Consolidation of Variable Interest Entities*, as it relates to Ex-Im's contractual arrangements.

Mr. Sorbera explained that approximately half of Ex-Im's portfolio of loans and loan guarantees are aircraft transactions. In these cases, Ex-Im makes loan guarantees to special purpose entities that lease aircraft to foreign airlines. If the foreign airline defaults, the special purpose entity still owns the airplane.

According to Ex-Im's annual report, Ex-Im is the primary beneficiary of certain variable interest entities (VIE) that have been created in connection with security arrangements for certain export credits, primarily Ex-Im-guaranteed financing for exports of commercial jet aircraft.

Typically, the VIEs take title to the aircraft from the aircraft manufacturer, lease the aircraft to the aircraft operator, and fund the purchase by financing from a commercial source of funds. The financing is fully guaranteed as to principal and interest by Ex-Im. The lease and financing terms are arranged so that the lease payments and terms of the loan are equivalent as to amount and timing, thus essentially the lease payments are passed through the VIE to repay the Ex-Im-guaranteed loan.

FIN 46, which was issued in 2003, required immediate consolidation by the primary beneficiary of VIEs created after January 31, 2003. In accordance with that pronouncement, certain VIEs were consolidated with Ex-Im's fiscal years 2004 and 2003 financial statements. This resulted in the recognition of lease receivables, borrowings consolidated from VIEs, lease income, and lease borrowing expense.

FIN 46 (R), *Consolidation of Variable Interest Entities (Revised December 2003)*, broadened the purview of entities covered under the accounting guidance, and redefined the timeline of adoption for entities subject to its requirements. According to Mr. Sorbera, Ex-Im consolidated all of the aircraft VIEs for which it was the primary beneficiary.

However, the auditors held that additional entities should be consolidated with Ex-Im under FIN 46. For example, Ex-Im has contractual agreements with the Private Export Funding Corporation (PEFCO). PEFCO, which is owned by a consortium of private sector banks, industrial companies and financial services institutions, makes medium-term and long-term fixed and variable rate loans to foreign borrowers to purchase U.S.-made equipment when such loans are not available from traditional private sector lenders on competitive terms. Through its contractual agreements with PEFCO, Ex-Im Bank exercises a broad measure of supervision over PEFCO's major financial management decisions, including approval of both the terms of individual loan commitments and the terms of PEFCO's long-term debt issues, and is entitled to representation at all meetings of PEFCO's board of directors, advisory board and exporters' council. PEFCO has agreements with Ex-Im Bank which provide that Ex-Im Bank will (1) guarantee the due and punctual payment of principal and interest on export loans made by PEFCO and (2) guarantee the due and punctual payment of interest on PEFCO's long-term secured debt obligations when requested by PEFCO.

Mr. Sorbera communicated that it is the auditors' opinion that if PEFCO were to cease operations, Ex-Im would absorb greater losses than the equity investors and, therefore, PEFCO should be consolidated with Ex-Im.

According to Mr. Sorbera, Ex-Im's senior management held informal discussions and concluded that it would not be appropriate to consolidate private sector entities such as PEFCO because it might give the appearance that the entities' obligations are covered by the full faith and credit of the U.S. government, which they are not. Furthermore, PEFCO did not want to be consolidated with the U.S. government and PEFCO's auditors were not sure it would be appropriate to consolidate.

Ex-Im's auditors continued to hold the opinion that PEFCO and other entities where the majority of the entities' receivables were guaranteed by Ex-Im (such as GOVCO) would need to be consolidated. Mr. Sorbera noted that the schedule at year-end and timeline for reporting would have made it extremely difficult to get data from these entities (assuming they would have provided it) in a timely manner for consolidation. Ex-Im strongly disagreed with the auditors that such entities should be consolidated in Ex-Im's statements and decided that it would be more appropriate to convert to FASAB GAAP.

Mr. Sorbera said another driver for the conversion to FASAB GAAP was the need to keep two sets of books, in effect, and perform a conversion for the year-end submission to Treasury. Given all the issues, he said that it was no longer feasible to continue applying FASB GAAP and then converting to FASAB GAAP for the governmentwide report.

Federal Reporting Model

Ms. Ranagan asked Mr. Sorbera if he believes the federal reporting model is the most appropriate reporting model for Ex-Im. Mr. Sorbera responded that, in his opinion, he believes that the balance sheet is more fairly presented under the federal model because the loss reserve is more representative of the actual losses Ex-Im expects to incur in the future.⁵

However, he noted that the private sector income statement is a better representation of Ex-Im's operations than the statement of net cost because Ex-Im is now self-sustaining. The statement of net cost focuses on cost, rather than income.

Ms. Ranagan asked Mr. Sorbera if he believes Ex-Im's management would make the same decision to convert to FASAB if Ex-Im had to do it all over again. He responded that Ex-Im would because of the auditors' interpretation of FIN 46 and because the federal reporting model is generally better for Ex-Im (i.e., reporting of the credit loss reserve). He said he does not know of a reason why Ex-Im would want to go back to FASB-based reporting.

Ms. Ranagan asked Mr. Sorbera if Ex-Im's financial statement users had complained about the change. He said he heard nothing from anyone; no one even questioned Ex-Im's net position going from a negative \$4 billion under FASB GAAP to a positive \$1B under FASAB GAAP, which resulted primarily from changes in the loss reserves.

⁵ 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 FASAB GAAP. However, FASB GAAP generally does not recognize future fees and premiums as an offset to the allowance since to do so would require recognition of income before it is earned. In addition, FASB GAAP reserves are measured on a fair value basis versus credit loss basis under FASAB GAAP; therefore, the credit loss reserve under FASB GAAP is much higher.

Ms. Ranagan asked if anyone missed the statement of cash flows; Mr. Sorbera responded no.

Benefits / Drawbacks to Conversion

Ms. Ranagan asked Mr. Sorbera what were the primary benefits and drawbacks to conversion to FASAB standards. Mr. Sorbera responded that as far as benefits to conversion, the FIN 46 issue was resolved and Ex-Im was no longer required to keep two sets of books or do the reconciliation from FASB GAAP to FASAB GAAP. He said the conversion made it easier for Ex-Im as one of the 35 verifying agencies because their data no longer needed to be converted.

Mr. Sorbera said there were no real drawbacks to conversion because Ex-Im had already been doing the reconciliation so it had been keeping the books for awhile. After conversion, they realized that the reconciliation had not been 100 percent accurate but it had been materially correct. Ex-Im had been using a financial system that was SGL-compliant at the transaction level since 1995 and had been maintaining both proprietary and budgetary accounting transactions.

He said the conversion was a little bit of a scramble because the decision to convert was made late in the year (late July or August). The auditors had started the audit as a FASB GAAP audit and had to bring in an auditor with knowledge of federal accounting to audit a complete set of federal financial statements.

Incremental Costs

Mr. Sorbera said there were no real incremental costs to speak of. Perhaps a few additional audit hours in the initial year, but the opinion on the FASAB-based closing package had already been a deliverable in the audit contract.

Ex-Im was already receiving reports directly generated from its financial management system – one set of reports that supported FASB GAAP and one set that supported FASAB GAAP. Mr. Sorbera said that the reports were mapped through internal programming and there was no manual intervention required. Entries were added to or subtracted from the mapping table as necessary to support the required information.

Ex-Im did have to create new financial statement templates but they completed that task internally and did not require contractor assistance.

In terms of how agencies could potentially decrease the cost of conversion, Ms. Ranagan and Mr. Sorbera discussed Ex-Im's gradual conversion to FASAB – Ex-Im started off with an SGL-compliant financial system; when Treasury requested an audited closing package, Ex-Im began preparing the footnote reconciliation in 2001; and then eventually progressed to full FASAB-based reporting.

Other

Ms. Ranagan noted that Ex-Im's statement of net cost contained more detail than that required by OMB Circular A-136 and asked if the auditors questioned the presentation at all. Ms. Ranagan explained that some of the entities that primarily apply FASB standards were concerned that they would lose the detail of revenue and expense if they moved to the federal reporting model. Mr. Sorbera responded that A-136 provides for flexibility in the presentation of detail and they had no problems with the auditors questioning it.

(Note: This summary has been reviewed for accuracy by Mr. Sorbera)

Statements of Financial Position

(in millions)	September 30, 2005	September 30, 2004
ASSETS		
Cash	\$3,981.3	\$5,095.5
Loans Receivable, Net	5,036.7	5,225.4
Receivables from Subrogated Claims, Net	1,222.4	1,272.4
Lease Receivables Consolidated from VIEs, Net	4,992.7	3,815.2
Accrued Interest, Fees Receivable and Other Assets	157.7	145.3
Total Assets	\$15,390.8	\$15,553.8
LIABILITIES AND STOCKHOLDER'S DEFICIENCY		
Borrowings from the U.S. Treasury	\$5,848.3	\$7,237.2
Payment Certificates	297.2	448.5
Borrowings Consolidated from VIEs	5,150.3	4,008.5
Allowance for Guarantees, Insurance and Undisbursed Loans	4,741.8	6,077.7
Claims Payable	7.9	12.1
Amounts Payable to the U.S. Treasury	1,884.3	751.5
Deferred Fees	859.7	889.5
Other Liabilities	73.5	83.3
Total Liabilities	18,863.0	19,508.3
COMMITMENTS AND CONTINGENCIES (Note 19)		
Capital Stock held by the U.S. Treasury	1,000.0	1,000.0
Tied-Aid Appropriations	338.6	341.7
Credit Appropriations	328.5	444.9
Accumulated Deficit	(5,139.3)	(5,741.1)
Total Stockholder's Deficiency	(3,472.2)	(3,954.5)
Total Liabilities and Stockholder's Deficiency	\$15,390.8	\$15,553.8

The accompanying notes are an integral part of this financial statement.

Statements of Operations

(in millions)	For the Year Ended September 30, 2005	For the Year Ended September 30, 2004
INTEREST INCOME		
Interest on Loans	\$794.7	\$734.7
Interest on Leases Consolidated from VIEs	240.2	83.3
Interest on Cash and Cash Equivalents	181.3	218.9
Total Interest Income	1,216.2	1,036.9
INTEREST EXPENSE		
Interest on Borrowings from U.S. Treasury	402.4	466.3
Interest on Borrowings Consolidated from VIEs	227.2	83.3
Other Interest Expense	0.2	0.1
Total Interest Expense	629.8	549.7
Net Interest Income	586.4	487.2
Provision for Credit and Claim Losses	(1,321.7)	(505.1)
Net Income after Provision for Losses	1,908.1	992.3
NON-INTEREST INCOME		
Commitment Fees	10.2	10.4
Exposure Fees for Guarantees	273.1	313.2
Insurance Premiums and Other Fees	31.1	36.3
Guarantee Amortization	490.4	679.8
Other Income	51.3	100.7
Total Non-Interest Income	856.1	1,140.4
NON-INTEREST EXPENSE		
Administrative Expense	68.2	71.6
Other Expense	14.6	16.7
Total Non-Interest Expense	82.8	88.3
Net Income	\$2,681.4	\$2,044.4

The accompanying notes are an integral part of this financial statement.

Statements of Changes in Capital and Accumulated Deficit

(in millions)	Capital Stock	Tied Aid	Appropriated Capital	Accumulated Deficit	Total
Balance at September 30, 2003	\$1,000.0	\$342.9	\$574.9	(\$6,718.6)	(\$4,800.8)
Appropriations Received			72.5		72.5
Appropriations Obligated Excluding Tied Aid			(351.6)	351.6	0.0
Net Income				2,044.4	2,044.4
Appropriations Deobligated and Reavailable, Net			149.3	(149.3)	0.0
Transfers of Pre-credit Reform Amounts and Negative Subsidy, Net (Note 2)				(541.7)	(541.7)
Tied-Aid Appropriations Disbursed		(1.2)			(1.2)
Amounts Payable to the U.S. Treasury (Note 2)			(0.2)	(727.5)	(727.7)
Balance at September 30, 2004	\$1,000.0	\$341.7	\$444.9	(\$5,741.1)	(\$3,954.5)
Appropriations Received			131.9	46.4	178.3
Appropriations Obligated Excluding Tied Aid			(313.8)	313.8	0.0
Net Income				2,681.4	2,681.4
Appropriations Deobligated and Reavailable, Net		2.7	65.5	(65.5)	2.7
Transfers of Pre-credit Reform Amounts and Negative Subsidy, Net (Note 2)				(527.0)	(527.0)
Tied-Aid Appropriations Disbursed		(5.8)			(5.8)
Amounts Payable to the U.S. Treasury (Note 2)				(1,847.3)	(1,847.3)
Balance at September 30, 2005	\$1,000.0	\$338.6	\$328.5	(\$5,139.3)	(\$3,472.2)

The accompanying notes are an integral part of this financial statement.

Statements of Cash Flows

(in millions)	For the Year Ended September 30, 2005	For the Year Ended September 30, 2004
CASH FLOWS FROM OPERATIONS		
Net Income	\$2,681.4	\$2,044.4
Adjustments To Reconcile Net Income to Net Cash from Operations:		
Amortization of Discount on Loans Receivable	(3.6)	(7.9)
Amortization of Loan Exposure Fees, Net	(26.0)	(19.2)
Provision for Credit and Claim Losses	(1,321.7)	(505.1)
Guarantee Amortization	(490.4)	(679.8)
Claim Payments and Recoveries, Net	48.4	137.7
Decrease in Claims Payable	(4.2)	-
(Decrease)/Increase in Deferred Fees	(29.8)	2.4
(Increase)/Decrease in Accrued Interest Receivable, Fees Receivable and Other Assets	(12.4)	6.6
Decrease in Other Liabilities	(9.8)	(25.0)
Net Cash Provided by Operations	831.9	954.1
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan Disbursements	(214.3)	(208.3)
Repayment of Loans Receivable	863.5	1,152.1
Disbursements of Lease Receivables Consolidated from VIEs	(1,576.0)	(3,183.7)
Repayment of Lease Receivables Consolidated from VIEs	329.8	151.4
Net Cash Used in Investing Activities	(597.0)	(2,088.5)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings from the U.S. Treasury	160.0	497.2
Repayment of Borrowings from the U.S. Treasury	(1,548.9)	(540.5)
Borrowings Consolidated from VIEs	1,576.1	3,183.7
Repayment of Borrowings Consolidated from VIEs	(318.7)	(151.4)
Credit Appropriations Received	131.9	72.5
Appropriations Received for Debt Reduction	46.4	-
Amounts Transferred to the U.S. Treasury	(1,241.5)	(2,461.5)
Claim Payment Certificates Paid	(151.3)	(144.5)
Tied-Aid Disbursements	(3.1)	(1.2)
Net Cash (Used)/Provided in Financing Activities	(1,349.1)	454.3
Net Decrease in Cash	(1,114.2)	(680.1)
Cash - Beginning of Year	5,095.5	5,775.6
Cash - End of Year	\$3,981.3	\$5,095.5
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Year for Interest	\$587.5	\$474.3

The accompanying notes are an integral part of this financial statement.

Export-Import Bank of the United States

Notes to the Financial Statements

For the Years Ended September 30, 2005 and 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Enabling Legislation and Mission

The Export-Import Bank of the United States (Ex-Im Bank) is an independent corporate agency of the United States that was first organized as a District of Columbia banking corporation in 1934. Ex-Im Bank's operations subsequent to September 30, 1991, are subject to the provisions of the Federal Credit Reform Act of 1990 (P.L. 101-508). Continuation of Ex-Im Bank as an independent corporate agency of the United States is subject to periodic reauthorizations granted by Congress. Congressional authorization has been extended through September 30, 2006. For FY 2005, the reauthorization increased Ex-Im Bank's overall limit on loans, guarantees and insurance that can be outstanding at any one time from \$90 billion to \$95 billion. The limit increases by an additional \$5 billion each year through FY 2006.

Ex-Im Bank's mission is to facilitate U.S. exports by providing financing in order to level the playing field for American exporters facing officially supported foreign financing competition and to supplement private sources of financing where the private sector is unwilling or unable to provide financing and Ex-Im Bank determines that reasonable assurance of repayment exists. In pursuit of its mission of supporting U.S. exports, Ex-Im Bank offers four financial products: direct loans, loan guarantees, working capital guarantees and export credit insurance. All Ex-Im Bank guarantees carry the full faith and credit of the U.S. government.

Ex-Im Bank offers fixed-rate loans directly to foreign buyers of U.S. goods and services. Ex-Im Bank extends to a company's foreign customer a fixed-rate loan covering up to 85 percent of the U.S. contract value. The buyer must make a cash payment to the U.S. exporter of at least 15 percent of the U.S. contract value. Ex-Im Bank's direct loans carry the lowest fixed-interest rate permitted for the importing country and term under the "Arrangement on

Guidelines for Officially Supported Export Credits” negotiated among members of the Organization for Economic Cooperation and Development (OECD).

Ex-Im Bank loan guarantees cover the repayment risks on the foreign buyer’s debt obligations incurred to purchase U.S. exports. Ex-Im Bank guarantees to a lender that, in the event of a payment default by the borrower, it will pay to the lender the outstanding principal and interest on the loan. Ex-Im Bank’s comprehensive guarantee covers all of the commercial and political risks for 85 percent of the U.S. contract value.

Ex-Im Bank extends medium-term and long-term direct loans and loan guarantees to foreign buyers of U.S. exports. Loans and guarantees extended under the medium-term loan program have repayment terms of one to seven years, while loans and guarantees extended under the long-term loan program usually have repayment terms in excess of seven years. Generally, both the medium-term and long-term loan and guarantee programs cover up to 85 percent of the U.S. contract value of shipped goods.

Under the Working Capital Guarantee program, Ex-Im Bank provides repayment guarantees to lenders on secured, short-term working capital loans made to qualified exporters. The working capital guarantee may be approved for a single loan or a revolving line of credit. Ex-Im Bank’s working capital guarantee protects the lender from default by the exporter for 90 percent of the loan principal and interest.

Ex-Im Bank’s export credit insurance program helps U.S. exporters sell their goods overseas by protecting them against the risk of foreign buyer or other foreign debtor default for political or commercial reasons, allowing them to extend credit to their international customers. Insurance policies may apply to shipments to one buyer or many buyers, insure comprehensive (commercial and political) credit risks or only political risks, and cover short-term or medium-term sales.

Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities

and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant of these estimates are the allowances for losses on loans receivable, lease receivables, subrogated claims receivable, and guarantees and insurance. In prior years, Ex-Im Bank used proxy recovery rates to calculate loss estimates; however, Ex-Im Bank has incorporated actual recovery experience in calculating FY 2005 loss estimates. Incorporating actual recovery experience in the loss estimate calculation had the impact of reducing the FY 2005 allowance by approximately \$1.6 billion.

Estimates are also used in the determination of the primary beneficiary for variable interest entities (VIEs), and for residual values on lease receivables consolidated from VIEs. Certain assumptions are also used to calculate the fair value of financial instruments (Note 18). Actual results could differ significantly from management’s assumptions and estimates.

Loans Receivables, Net

Loans are carried at principal amounts, less unamortized fees and discounts and an allowance for loan losses. Ex-Im Bank defers loan exposure fees and takes these deferred fees into interest income as a yield adjustment over the term of the loans using the interest method. If a loan is prepaid, any unamortized fees are recognized as interest income at the time of prepayment.

From time to time, Ex-Im Bank extends the repayment date and may modify the interest rate of some or all principal installments of a loan because the obligor or country has encountered financial difficulty and Ex-Im Bank has determined that providing relief in this manner will enhance the ability to collect the loan.

Discount on Loans Receivables

In fulfilling its mission to aid in financing and facilitating exports of U.S. goods and services and to provide U.S. exporters with financing that is competitive with that provided by foreign governments to their exporters, Ex-Im Bank, at times, lends money at interest rates lower than its cost of funds. In the period these loans are disbursed, Ex-Im Bank records a charge to income equivalent to the discount at disbursement. The discount is amortized to interest income

over an eight-year period, the average life of the loan portfolio, using a method that approximates the interest method.

Lease Receivables and Borrowings Consolidated from VIEs, Net

Lease receivables and borrowings arise from consolidation of certain VIEs. See Notes 3 and 7. The leases are finance leases in accordance with FASB No. 13, *Accounting for Leases*, and are reported as lease receivables, net of the allowance for loss.

Receivables from Subrogated Claims, Net

Receivables from subrogated claims represent the outstanding balance of payments that were made on claims that were submitted to Ex-Im Bank in its capacity as guarantor or insurer under Ex-Im Bank's export guarantee or insurance programs. Receivables from subrogated claims are carried at principal amounts less uncollected capitalized interest for rescheduled claims and an allowance for claim losses. Under the subrogation clauses in its guarantee and insurance contracts, Ex-Im Bank receives all rights, title and interest in all amounts relating to claims paid under insurance policies and guarantees and therefore establishes an asset to reflect such rights.

Accrued Interest

Interest is accrued on loans and claims as it is earned. Generally, loans and subrogated claims receivable delinquent 90 days or more are placed on a nonaccrual status unless they are well secured and significant collections have been received. At the time that a loan or claim is placed on nonaccrual status, any accrued but unpaid interest previously recorded is reversed against current period interest income. The interest on these loans is accounted for on a cash basis until qualifying for return to accrual status. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Accounting for Capitalized Interest on Rescheduled Loans and Subrogated Claims

Rescheduling agreements frequently allow for Ex-Im Bank to add uncollected interest to the principal balance of rescheduled loans and subrogated claims receivable (i.e., capitalized interest). When capitalized, any accrued inter-

est receivable is reversed against current period's interest income. The amount of interest that was capitalized and included in the principal balance is recorded as income when cash collections occur and only after all principal not related to the capitalized interest is paid. An allowance is established for all uncollected capitalized interest.

Allowance for Losses on Loans, Guarantees, Insurance, Subrogated Claims and Lease Receivables

The allowance for losses provides for estimated losses inherent in the loan, claim, lease, guarantee and insurance portfolios. The allowance is established as losses are estimated to have occurred through a provision charged to earnings. Write-offs are charged against the allowance when management believes the uncollectibility of a loan or claim balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the credits in light of historical and market experience, the nature and volume of the credit portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing worldwide economic and political conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Ex-Im Bank is the primary beneficiary of certain VIEs that have been created in connection with security arrangements for certain export credits. The lease arrangements associated with these VIEs are direct financing leases, and a loss allowance for the lease receivables is established for probable losses inherent in the lease portfolio.

An asset (loans or claims receivable) is considered impaired when, based on current information and events, it is probable that Ex-Im Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Assets that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the sig-

nificance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the asset and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Ex-Im Bank generally considers an asset impaired if it meets one or more of the following:

- (1) delinquent loans and claims with an amount of \$50,000 or more past due at least 90 days;
- (2) rescheduled loans and rescheduled claims, or
- (3) non-delinquent loans and claims above a certain risk rating.

Ex-Im Bank is subject to credit risk for certain other financial instruments. These financial instruments consist of (1) guarantees and insurance that provide repayment protection against certain political and commercial risks and (2) guarantees of letters of credit underlying future loan disbursements. Ex-Im Bank generally does not hold collateral or other security to support its medium-term and short-term financial instruments. Ex-Im Bank generally does hold collateral for credits supporting export of aircraft and a variety of security arrangements are made in the case of project finance transactions. When issuing working capital guarantees, Ex-Im Bank frequently requires the guaranteed party to obtain collateral or a third-party guarantee from the debtor. The amount of collateral required is based on management's credit evaluation.

The risks associated with guarantees and insurance differ from those associated with the loan portfolio. Loans are spread more evenly than guarantees over the entire risk spectrum, while guarantees and insurance are concentrated in relatively lower-risk countries.

Sovereign debt reschedulings take place under the framework of the Paris Club. The Paris Club is an "ad hoc" group of 19 permanent member creditor countries. The Paris Club meets regularly in Paris to discuss and provide debt relief to qualifying debtor countries. The debt relief provided depends on the economic and financial situation of the applying debtor country and can take the form of debt forgiveness and/or debt rescheduling.

Accounting for Guarantees in a Foreign Currency

Ex-Im Bank provides guarantees and insurance denominated in certain foreign currencies. The foreign currencies approved for Ex-Im Bank guarantees as of September 30, 2005, are: Australian dollar, Brazilian real, British pound, Canadian dollar, CFA franc, Colombian peso, euro, Japanese yen, Mexican peso, Moroccan dirham, New Zealand dollar, Philippine peso, Russian ruble, South African rand, Swedish krona, Swiss franc and Thai baht. At the time of authorization, Ex-Im Bank records the dollar amount equivalent to the foreign currency obligation approved by the board of directors based on the exchange rate at that time. At the end of each fiscal year, Ex-Im Bank determines the dollar equivalent of the outstanding balance for each foreign currency guarantee based on the exchange rate at the end of the year, and adjusts the Allowance for Guarantees accordingly. See Note 10.

Borrowings from the U.S. Treasury

The main source of Ex-Im Bank's outstanding debt is borrowings from the U.S. Treasury. Borrowings from the U.S. Treasury are used primarily to finance medium-term and long-term loans. These borrowings carry a fixed rate of interest. They are further discussed in Note 15.

Payment Certificates

Payment Certificates represent Ex-Im Bank's outstanding borrowings related to specific claims for which Ex-Im Bank is paying the guaranteed lender as the guaranteed installments become due. Payment certificates are issued by Ex-Im Bank in exchange for the foreign importer's defaulted note that was guaranteed by Ex-Im Bank, and the payment certificates carry the same repayment terms and interest rate as the guaranteed foreign importer's note. Payment certificates are backed by the full faith and credit of the U.S. government and are freely transferable.

Claims Payable

Liabilities for claims arising from Ex-Im Bank's guarantee and insurance activities and the related estimated losses and claim recovery expenses are accrued upon approval of a claim.

Amounts Payable to the U.S. Treasury

Amounts payable to the U.S. Treasury results from the re-estimate required under Federal Credit Reform Act procedures of the balance in Ex-Im Bank's financing account at the Treasury reserved to cover estimated losses, and expired appropriations to be returned to the Treasury.

Fees and Premiums

Ex-Im Bank charges a risk-related exposure fee under both the loan and guarantee programs that is collected on each loan disbursement or shipment of goods under the guarantee policy. Exposure fees for loans are recognized as interest income over the life of the loan using the interest method. Exposure fees for guarantees are recognized as noninterest income over the life of the guaranteed loan using the interest method. Commitment fees are charged on the undisbursed balance of direct loans and guarantees. These fees are generally nonrefundable, and are recognized as income when accrued.

On working capital guarantees, Ex-Im Bank charges an up-front facility fee, which, due to the short-term nature of the contracts, is credited to income as collected. Premiums charged under insurance policies are recognized as income using a method that generally reflects the exposure over the term of the policy.

Appropriated Capital

Appropriations received by Ex-Im Bank pursuant to the Federal Credit Reform Act are recorded as paid-in-capital. Such appropriations are credited to Ex-Im Bank's total stockholders deficiency when they are obligated. Appropriations not required to finance credit activities are returned to the U.S. Treasury when the period of availability ends.

Congress has appropriated certain sums specifically for Ex-Im Bank's tied-aid activities. Tied aid is government-to-government concessional financing of public-sector capital projects in developing countries. Tied-aid terms usually involve total maturities longer than 20 years, lower than market interest rates and/or direct grants.

Accounting and Financial Reporting Developments

In November 2002, the FASB released FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including*

Indirect Guarantees of Indebtedness of Others (FIN 45).

Subsequently, in December 2003, FASB issued FASB Staff Position (FSP) 45-2 to provide further guidance on recording liabilities associated with guarantees. Under FIN 45, Ex-Im Bank recognizes all guarantees issued or modified after December 31, 2002, as liabilities on their balance sheet at the inception of the guarantee at its fair value and subsequently amortizes the balance as the related exposure decreases using the unpaid-principal-balance method. The impact of FIN 45, as updated, on Ex-Im Bank's financial statements is discussed in Note 10.

In January 2003, the FASB issued FASB interpretation No. 46, *Consolidation of Variable Interest Entities*, which addresses the consolidation of certain entities. Ex-Im Bank is the primary beneficiary of certain variable interest entities (VIEs) that have been created in connection with security arrangements for certain export credits, primarily Ex-Im Bank guaranteed financing for exports of commercial jet aircraft. The impact of FIN 46 on Ex-Im Bank's financial statements is discussed in Notes 3 and 7.

FIN 46 required immediate consolidation by the primary beneficiary of VIEs created after January 31, 2003. In accordance with that pronouncement, certain VIEs were consolidated with the Bank's FY 2005 and FY 2004 financial statements. See Note 3 for further discussion.

FIN 46 (R), which the FASB issued in December 2003 to revise the original pronouncement, broadened the purview of entities covered under the accounting guidance and redefined the timeline of adoption for entities subject to its requirements. With the issuance of FIN 46 (R), nonpublic enterprises are not required to consolidate variable interest entities established prior to February 1, 2003, for which they are the primary beneficiary until the first period beginning after December 15, 2004. Ex-Im Bank plans to adopt FIN 46 (R) and consolidate as of October 1, 2005, all other VIEs for which Ex-Im Bank is the primary beneficiary.

2. CREDIT REFORM

The Federal Credit Reform Act of 1990 (Act), which became effective on October 1, 1991, significantly affected the manner in which Ex-Im Bank finances its credit activities. The primary purpose of this Act is to measure more accurately the cost of federal credit programs and to place

financing accounts. In the event that the fees, interest and appropriations in the financing accounts exceed the re-estimate level, then the difference will not be needed to cover commitments and will be returned to the U.S. Treasury. These amounts are included in the Amounts Payable to the U.S. Treasury on the Statements of Financial Position. In the event that the fees, interest and appropriations in the financing accounts are less than the re-estimate level, the Credit Reform Act of 1990 provides that the difference will be transferred to Ex-Im Bank from a general appropriation account authorized for this purpose. As of September 30, 2005, a re-estimate of the subsidy costs of the outstanding balances of fiscal year 1992 through 2004 commitments indicated that of the fees, interest and appropriations in the financing accounts, the net amount of \$1,768.9 million was no longer needed to cover commitments and was due to the U.S. Treasury. These amounts are included in the Amounts Payable to the U.S. Treasury on the Statements of Financial Position.

The Statements of Changes in Capital and Accumulated Deficit reflects \$527.0 million in fiscal year 2005 and \$541.7 million in fiscal year 2004 as amounts transferred to the U.S. Treasury. The \$527.0 million represents negative subsidies of \$26.0 million and \$501.0 million of unobligated funds relating to credits authorized prior to October 1, 1991. The \$541.7 million represents \$500.0 million of unobligated funds relating to credits authorized prior to October 1, 1991, and \$41.7 million of negative subsidies.

The Statements of Changes in Capital and Accumulated Deficit reflects \$1,847.3 million in fiscal year 2005 and \$727.5 million in fiscal year 2004 as amounts payable to the U.S. Treasury. The amounts payable at the end of FY 2004 were paid to the U.S. Treasury in FY 2005, and the amounts payable at the end of FY 2005 will be paid to the U.S. Treasury in subsequent years. The \$1,847.3 million represents \$1,768.9 million for the fiscal year 2005 subsidy re-estimate and \$78.4 million of expired unobligated appropriations. The \$727.7 million represents \$665.5 million for the fiscal year 2004 subsidy re-estimate and \$62.2 million of expired unobligated appropriations.

3. CONSOLIDATION OF VARIABLE INTEREST ENTITIES

Ex-Im Bank is the primary beneficiary of certain VIEs that have been created in connection with security arrangements for certain export credits, primarily Ex-Im Bank guaranteed financing for exports of commercial jet aircraft. Typically, the VIEs take title to the aircraft from the aircraft manufacturer, lease the aircraft to the aircraft operator, and fund the purchase by financing from a commercial source of funds. The financing is fully guaranteed as to principal and interest by Ex-Im Bank. The lease and financing terms are arranged so that the lease payments and terms of the loan are mostly equivalent as to amount and timing, thus essentially the lease payments are passed through the VIE to repay the Ex-Im Bank guaranteed loan.

FIN 46 required immediate consolidation by the primary beneficiary of VIEs created after January 31, 2003. For fiscal year 2005, there were 49 VIEs with a lease receivable balance, net of allowance of \$146.5 million, totaling \$4,992.7 million and borrowings totaling \$5,150.3 million guaranteed by Ex-Im Bank and are consolidated with the September 30, 2005, financial statements. For fiscal year 2004, there were 28 VIEs with a lease receivable balance, net of an allowance of \$193.3 million, totaling \$3,815.2 million and borrowings totaling \$4,008.5 million guaranteed by Ex-Im Bank and are consolidated with Ex-Im Bank's September 30, 2004, financial statements. Ex-Im Bank has not consolidated four VIEs created in fiscal year 2005 and seven VIEs created in FY 2004 because Ex-Im Bank is not the primary beneficiary. The function of these VIEs is the same as described above; however, a junior subordinated lender has been determined to be the primary beneficiary. When a VIE is not consolidated, it is accounted for as a guarantee as discussed in Note 10.

In December 2003, FIN 46 (R), *Consolidation of Variable Interest Entities* (Revised December 2003), was issued and is required to be applied to all VIEs no later than the beginning of the first annual period after December 15, 2004. Ex-Im Bank will therefore adopt FIN 46 (R) as of October 1, 2005, and consolidate all other VIEs for which Ex-Im Bank is the primary beneficiary. The total additional amount to be consolidated at October 1, 2005, is approximately \$5.2 billion in pre-February 1, 2003, gross VIE lease borrowings payable.

Ex-Im Bank is also in the process of evaluating other VIEs for potential consolidation on October 1, 2005.

4. CASH

Cash balances as of fiscal years 2005 and 2004 were as follows:

(in millions)	FY 2005	FY 2004
Credit-Reform-Financing Accounts	\$2,930.5	\$3,754.0
Unexpended Appropriations	981.6	1,237.1
Pre-credit Reform Accounts	6.9	46.8
VIE Cash on Hand	23.9	-
Unallocated Cash	38.4	57.6
Total	\$3,981.3	\$5,095.5

Credit-reform-financing accounts include appropriated funds, exposure fees collected, and interest that has been paid by Treasury to Ex-Im Bank on the balances in the account. These funds are available to cover losses in Ex-Im Bank's credit programs. Unexpended appropriations are appropriated funds received that are deposited in a noninterest-bearing account at the U.S. Treasury. These funds are available to Ex-Im Bank when the credit activity to which they relate takes place or to finance administrative expenses. Upon occurrence of the credit activity, disbursement of the related loans or shipment of goods under guarantee or insurance policies, the funds become available to either subsidize the related loan disbursement or to be invested in the credit-reform-financing accounts to fund the credit costs of the guarantee and insurance policies.

Funds resulting from pre-credit-reform activities are available to cover expenditures related to pre-credit-reform credits. VIE Cash on Hand represents cash from consolidated lease payments held until payments on the related borrowings are repaid. Unallocated cash represents collections pending final application to the applicable loan or guarantee.

5. LOANS RECEIVABLE, NET

Ex-Im Bank's loans receivable, as shown in the Statements of Financial Position, are net of uncollected interest capitalized upon rescheduling, unamortized fees and discounts, and an allowance for loan losses. At

September 30, 2005, and September 30, 2004, the allowance for loan losses equaled 19.9 percent and 24.7 percent, respectively, of the outstanding loans receivable net of uncollected capitalized interest and unamortized discount and exposure fees. The net balance of loans receivable at September 30, 2005, and September 30, 2004, consists of the following by region of obligor:

(in millions)	FY 2005	FY 2004
Asia	\$3,593.7	\$4,167.9
Latin America	2,570.4	2,616.5
Africa/Middle East	1,929.7	2,068.0
Europe/Canada	260.4	435.9
	8,354.2	9,288.3
Less: Capitalized Interest	1,873.5	2,131.0
Unamortized Discount and Exposure Fees	188.4	218.2
	6,292.3	6,939.1
Less: Allowance for Loan Losses	1,255.6	1,713.7
Net Balance	\$5,036.7	\$5,225.4

Changes in the allowance for loan losses for fiscal years 2005 and 2004 are as follows:

(in millions)	FY 2005	FY 2004
Balance at Beginning of Year	\$1,713.7	\$1,975.7
Write-offs	(27.2)	(12.9)
Provision Credited to Operations	(430.9)	(249.1)
Balance at End of Year	\$1,255.6	\$1,713.7

The outstanding balances related to rescheduled installments included in loans receivable at September 30, 2005, and September 30, 2004, were \$2,726.8 million and \$3,059.5 million, respectively. Loan principal installments of \$23.1 million were rescheduled during fiscal year 2005, while loan principal installments of \$374.4 million were rescheduled in fiscal year 2004. Loan installments of interest rescheduled during fiscal years 2005 and 2004 were \$31.8 million and \$214.2 million, respectively. The interest rate on rescheduled loans is generally a floating rate of interest, which is 37.5 to 62.5 basis points over Ex-Im Bank's cost of borrowing.

The allowance for loan loss decreased from \$1,713.7 million at September 30, 2004, to \$1,255.6 million at September 30, 2005, due to the decrease in the outstanding balance and less risk in the portfolio at fiscal year end 2005.

6. RECEIVABLES FROM SUBROGATED CLAIMS, NET

Ex-Im Bank's receivables from subrogated claims are net of uncollected capitalized interest for rescheduled claims and an allowance for claim losses. The net balance of receivables from subrogated claims for fiscal year 2005 and fiscal year 2004 are as follows:

(in millions)	FY 2005	FY 2004
Claims Previously Paid and Unrecovered:		
Rescheduled	\$2,274.3	\$2,446.9
Nonrescheduled	1,343.0	1,436.1
Claims Filed Pending Payment	7.9	12.1
	3,625.2	3,895.1
Less: Capitalized Interest	963.2	994.0
	2,662.0	2,901.1
Less: Allowance for Claim Losses	1,439.6	1,628.7
Net Balance	\$1,222.4	\$1,272.4

Changes in the allowance for claim losses for fiscal years 2005 and 2004 are as follows:

(in millions)	FY 2005	FY 2004
Balance at Beginning of Year	\$1,628.7	\$1,586.3
Write-offs	(190.6)	(51.4)
Provision Charged to Operations	1.5	93.8
Balance at End of Year	\$1,439.6	\$1,628.7

7. LEASE RECEIVABLES

Ex-Im Bank's lease receivables arise from consolidating VIEs created in connection with security arrangements for certain export credits. See Note 3. The lease receivables shown in the Statements of Financial Position are net of an allowance for lease losses. The allowance is calculated based on probable losses inherent in the lease portfolio. The net investment in lease receivables at September 30, 2005, and September 30, 2004, is:

(in millions)	FY 2005	FY 2004
Total Minimum Lease Payments To Be Received	\$6,204.7	\$4,753.2
Less: Allowance for Losses	146.5	193.3
Net Minimum Lease Payments Receivable	6,058.2	4,559.9
Less: Unearned Income	1,065.5	744.7
Net Investment in Financing Leases	\$4,992.7	\$3,815.2

At September 30, 2005, minimum lease payments for each of the five succeeding fiscal years are as follows: \$609.3 million in 2006, \$604.5 million in 2007, \$599.8 million in 2008, \$594.5 million in 2009, and \$585.3 million in 2010.

The change in the allowance for financing lease losses for fiscal years 2005 and 2004 is as follows:

(in millions)	FY 2005	FY 2004
Balance at Beginning of Year	\$193.3	\$37.0
Write-offs	-	-
Provision(Credited)/Charged to Operations	(46.8)	156.3
Balance at End of Year	\$146.5	\$193.3

8. IMPAIRED LOANS AND SUBROGATED CLAIMS RECEIVABLE

Included in loans and subrogated claims receivable are certain credits that are classified as impaired for financial statement purposes. The following table summarizes the gross amount of impaired loans and subrogated claims receivable, net of nonaccrued capitalized interest:

FY 2005 (in millions)	Loans	Claims	Total
Gross Impaired Receivable	\$3,071.0	\$3,572.8	\$6,643.8
Less: Capitalized Interest	1,591.8	963.2	2,555.0
	1,479.2	2,609.6	4,088.8
Less: Allowance for Losses	691.1	1,434.8	2,125.9
Net Impaired Receivable	\$788.1	\$1,174.8	\$1,962.9
FY 2004 (in millions)	Loans	Claims	Total
Gross Impaired Receivable	\$3,659.6	\$3,780.8	\$7,440.4
Less: Capitalized Interest	1,846.3	994.0	2,840.3
	1,813.3	2,786.8	4,600.1
Less: Allowance for Losses	950.0	1,608.7	2,558.7
Net Impaired Receivable	\$863.3	\$1,178.1	\$2,041.4

Interest income on impaired loans and claims is generally recognized when collected. The average outstanding balance of impaired credits during FY 2005 was \$7,042.1 million and \$7,348.0 million during FY 2004. The interest recognized on impaired credits in FY 2005 was \$94.4 million and \$151.5 million in FY 2004, which are included in the \$1,034.9 million of total interest income on loans and leases reported for FY 2005 and the \$818.0 million reported for FY 2004. On a cash basis, the amount of interest income recognized for FY 2005 and FY 2004 would have been \$86.8 million and \$149.0 million, respectively.

Sovereign debt reschedulings take place under the framework of the Paris Club. The Paris Club is an "ad hoc" group of 19 permanent member creditor countries. The Paris Club meets regularly in Paris to discuss and provide debt relief to qualifying debtor countries. The debt relief provided depends on the economic and financial situation of the applying debtor country and can take the form of debt forgiveness and/or debt rescheduling. The amount of principal forgiveness and debt rescheduled in FY 2005 was \$134.5 million and \$92.2 million, respectively, while the amount of principal forgiveness and debt rescheduled in FY 2004 was \$30.4 million and \$976.9 million, respectively.

The amount written off to the reserve in fiscal year 2005 includes \$27.2 million in loan write-offs and \$190.6 million in claim write-offs for a total write-off of \$217.8 million. The difference between the reserve write-offs and Paris Club principal forgiveness reflect \$133.9 million of nonsovereign subrogated claims included in the reserve write-off but not included in the Paris Club principal forgiveness and \$50.6 million in capitalized interest not included in reserve write-off but included in the Paris Club principal forgiveness.

The amount written off to the reserve in fiscal year 2004 includes \$12.9 million in loan write-offs and \$51.4 million in claim write-offs for a total write-off of \$64.3 million. The difference between the reserve write-offs and Paris Club principal forgiveness reflect \$39.6 million of nonsovereign subrogated claims included in the reserve write-off but not included in the Paris Club principal forgiveness and \$5.7 million in capitalized interest not included in reserve write-off but included in the Paris Club principal forgiveness.

9. NONACCRUAL OF INTEREST

The weighted-average-interest rate on Ex-Im Bank's loan and rescheduled claim portfolio at September 30, 2005, equaled 3.44 percent (6.02 percent on performing loans and rescheduled claims). The weighted-average-interest rate on Ex-Im Bank's loan and rescheduled claim portfolio at September 30, 2004, equaled 3.43 percent (5.87 percent on performing loans and rescheduled claims). Interest income is recognized when collected on nonrescheduled claims.

Generally, the accrual of interest on loans and rescheduled claims is discontinued when the credit is delinquent for 90 days. Ex-Im Bank had a total of \$2,958.5 million and \$1,594.8 million of loans and rescheduled claims, respectively, in nonaccrual status at September 30, 2005, and \$3,173.1 million and \$1,696.9 million, respectively, at September 30, 2004. Had these credits been in accrual status, interest income would have been \$130.6 million higher during fiscal year 2005 (amount is net of interest received of \$66.1 million) and \$35.5 million higher in fiscal year 2004 (amount is net of interest received of \$132.3 million).

10. GUARANTEES, INSURANCE AND UNDISBURSED LOANS

Following is a summary of Ex-Im Bank's guarantees, insurance and undisbursed loans at the end of fiscal year 2005 and 2004.

FY 2005 (in millions)	Total	Commitments	
		Used	Outstanding*
Guarantees	\$43,554.6	\$9,274.5	\$34,280.2
Insurance	7,316.2	5,739.2	1,576.9
Undisbursed Loans	102.3	102.3	-
Total	\$50,973.1	\$15,116.0	\$35,857.1

FY 2004 (in millions)	Total	Commitments	
		Used	Outstanding*
Guarantees	\$41,361.6	\$6,990.8	\$34,370.8
Insurance	6,183.8	4,792.9	1,390.9
Undisbursed Loans	419.4	419.4	-
Total	\$47,964.8	\$12,203.1	\$35,761.7

*Shipment of goods has taken place.

Ex-Im Bank is exposed to credit loss with respect to the amount at risk in the event of nonpayment by other parties to the agreements. The commitments shown above are agreements to lend monies and issue guarantees and insurance as long as there is no violation of the conditions established in the credit agreement. Ex-Im Bank's insurance meets the definition of a guarantee under FIN 45.

Prior to the adoption of FIN 45, Ex-Im Bank recorded an allowance for guarantees at fair value. Subsequent to the issuance of FSP FIN 45-2 as of October 1, 2003, Ex-Im Bank separated the fair value of the portfolio into two components representing a noncontingent obligation under FIN 45 and a contingent obligation under FAS 5, using the fair value at September 30, 2003. The noncontingent obligation under FIN 45 was \$3,872.2 million and the contingent obligation under FAS 5 was \$3,391.4 million as of October 1, 2003. During fiscal years 2004 and 2005, the FIN 45 noncontingent obligation was amortized as the exposure decreased and the FAS 5 contingent obligation relating to the guarantees issued through September 30, 2003, was adjusted to reflect fluctuations in the risk rating. In fiscal years 2004 and 2005, Ex-Im Bank recorded a liability for guarantees at the time of authorization at their fair value and subsequently amortized the balance as the related exposure decreased, in accordance with FSP FIN 45-2. The FAS 5 allowance for contingent obligations recorded in fiscal years 2004 and 2005 for guarantees issued post-September 30, 2003, takes into consideration the noncontingent obligation recorded under FIN 45. As of September

30, 2005, and September 30, 2004, the amount included in the allowance for guarantees and insurance incorporates a noncontingent obligation under FIN 45 of \$3,605.2 and \$3,728.9 million, and contingent obligation under FAS 5 of \$1,136.6 and \$2,348.8 million, respectively.

The amortization of the noncontingent obligation under FIN 45 was \$490.4 million in FY 2005 and \$679.8 million in FY 2004, which is included in Guarantee Amortization on the Statements of Operations. Ex-Im Bank defers exposure fees and recognizes fee income over the life of the credit. In FY 2005, \$22.5 million represents the exposure fees that were credited to income.

Ex-Im Bank authorized transactions denominated in a foreign currency totaling \$2,054.2 million during fiscal year 2005 and \$1,632.9 during fiscal year 2004, as calculated at the exchange rate at the time of authorization. Ex-Im Bank adjusts the allowance for all transactions denominated in a foreign currency using the various foreign currency exchange rates at the end of the fiscal year. The impact of the foreign currency adjustment was to increase the allowance for guarantees, insurance and undisbursed loans by \$48.4 million and \$63.3 million as of September 30, 2005, and September 30, 2004, respectively.

Most of Ex-Im Bank's guarantees, insurance and undisbursed loans involve credits located outside of the United States. Following is a breakdown of total commitments at September 30, 2005:

(in millions)	Guarantees	Insurance	Undisbursed Loans	Total
Asia	\$13,011.7	\$179.9	\$6.9	\$13,198.5
Europe/Canada	10,021.2	425.1	-	10,446.3
Latin America	8,717.0	1,734.2	85.7	10,536.9
Africa/Middle East	6,311.7	411.8	9.7	6,733.2
United States/Other	5,493.0	19.0	-	5,512.0
Short-Term Insurance (Unshipped)	-	4,546.2	-	4,546.2
Total	\$43,554.6	\$7,316.2	\$102.3	\$50,973.1

Changes in the allowance for guarantees, insurance and undisbursed loans risk for fiscal years 2005 and 2004 are as follows:

(in millions)	FY 2005	FY 2004
Balance at Beginning of Year	\$6,077.7	\$7,263.6
Provision Credited to Operations	(845.5)	(506.1)
Guarantee Amortization	(490.4)	(679.8)
Balance at End of Year	\$4,741.8	\$6,077.7

The allowance for guarantees, insurance and undisbursed loans decreased from \$6,077.7 million at September 30, 2004, to \$4,741.8 million at September 30, 2005, due to the amortization of the guarantees under FIN 45, and lower overall risk in the portfolio at the end of fiscal year 2005.

11. SUMMARY OF ALLOWANCE FOR CREDIT LOSSES

The composition of the allowance for credit losses for loans, claims, lease receivables and guarantees, insurance, and undisbursed loans is as follows:

(in millions)	FY 2005	FY 2004
Allowance for Loan Losses	\$1,255.6	\$1,713.7
Allowance for Claim Losses	1,439.6	1,628.7
Allowance for Lease Receivable	146.5	193.3
Allowance for Guarantees, Insurance and Undisbursed Loans	4,741.8	6,077.7
Total	\$7,583.5	\$9,613.4

12. SUMMARY OF PROVISION CREDITED TO OPERATIONS

The composition of the provision for credit losses for loans, claims, lease receivables and guarantees, insurance, and undisbursed loans is as follows:

(in millions)	FY 2005	FY 2004
Provision for Loan Losses	(\$430.9)	(\$249.1)
Provision for Claim Losses	1.5	93.8
Provision for Lease Losses	(46.8)	156.3
Provision for Guarantees, Insurance and Undisbursed Loans	(845.5)	(506.1)
Total	(\$1,321.7)	(\$505.1)

13. STATUTORY LIMITATIONS ON LENDING AUTHORITY

Under provisions of the Export-Import Bank Act, as amended in fiscal year 2002, Ex-Im Bank's statutory authority currently is limited to \$95.0 billion of loans, guarantees and insurance outstanding at any one time. At September 30, 2005, and September 30, 2004, Ex-Im Bank's statutory authority used was as follows:

(in millions)	FY 2005	FY 2004
Outstanding Loans	\$8,354.2	\$9,288.3
Undisbursed Loans	102.3	419.4
Outstanding Claims	3,625.2	3,895.1
Guarantees	43,554.6	41,361.6
Insurance	7,316.2	6,183.8
Total	\$62,952.5	\$61,148.2

The statutory authority increases \$5 billion each year to a total of \$100 billion in FY 2006.

Congress provides an appropriation to cover the subsidy cost of the transactions committed. Transactions can be committed only to the extent that appropriated funds are available to cover such costs. For fiscal years 2005 and 2004, Congress placed no limit on the total amount of loans, guarantees and insurance that could be committed in those years, provided that the statutory authority established by the Export-Import Bank Act was not exceeded.

During fiscal year 2005, Ex-Im Bank did not enter into commitments for loans but did commit \$13,936.2 million for guarantees and insurance using \$241.2 million of the appropriation. During fiscal year 2004, Ex-Im Bank entered into commitments for loans of \$227.1 million using \$21.5 million of the appropriation and commitments for guarantees and insurance of \$13,093.0 million using \$257.7 million of the appropriation.

14. CONCENTRATION OF RISK

Although Ex-Im Bank has a diversified portfolio, its credits are more heavily concentrated in some regions or industries than others. The following table summarizes Ex-Im Bank's total exposure by geographic region and industry as of September 30, 2005.

the cost of such credit programs on a basis equivalent with other federal spending.

Ex-Im Bank received appropriations aggregating \$131.9 million in fiscal year 2005 to support both the Bank's administrative costs and subsidy needs for providing new direct loans, guarantees and insurance. In addition, \$46.4 million was received for debt reduction relating to Heavily Indebted Poor Countries (HIPC) and Iraq initiatives. Ex-Im Bank received appropriations aggregating \$72.5 million in fiscal year 2004. This appropriation supported the administrative costs of Ex-Im Bank's programs. For 2004, due to availability of unobligated balances carried over from the prior year, no appropriation was necessary to cover the estimated subsidy cost of providing new direct loans, guarantees and insurance. Consequently, Ex-Im Bank's request to the Congress for FY 2004 did not contain a request for a subsidy budget appropriation. The following table summarizes post-credit-reform appropriations received and used during fiscal years 2005 and 2004:

(in millions)	FY 2005	FY 2004
RECEIVED AND AVAILABLE:		
For Credit Subsidies	\$105.7	\$ -
For Credit-related Administrative Costs	72.6	72.5
Total Received	178.3	72.5
Unobligated Balance Carried Over from Prior Year	705.4	835.3
Cancellations of Prior-Year Obligations	68.2	149.3
Total Available	951.9	1,057.1
OBLIGATED:		
For Credit Subsidies Excluding Tied Aid	287.6	279.1
For Credit-related Administrative Costs	72.6	72.3
Subtotal	360.2	351.4
For Tied Aid	-	-
Total Obligated	360.2	351.4
UNOBLIGATED BALANCE:		
Unobligated Balance	591.7	705.7
Unobligated Balance Lapsed	-	(0.3)
Remaining Balance	\$591.7	\$705.4

Of the remaining balance of \$591.7 million at September 30, 2005, \$287.5 million is available until September 30, 2006, \$41.0 million is available until

September 30, 2008, and \$263.2 million is available until expended and may be used for tied aid.

The cost of credit risk (credit subsidies) shown above, is the net present value of expected cash receipts and cash disbursements associated with loans, guarantees and insurance. Cash receipts typically include fees or premiums and loan principal and interest, and cash disbursements typically include claim payments and loan disbursements. When the present value of expected cash receipts exceeds the present value of expected cash disbursements, a "negative" credit subsidy arises. Negative subsidies are remitted to the U.S. Treasury upon disbursement of the underlying credits. Ex-Im Bank transferred \$26.0 million and \$41.7 million of negative subsidies to the U.S. Treasury in fiscal year 2005 and fiscal year 2004, respectively.

The appropriation for administrative costs is based on an annual estimate of the costs to administer and service Ex-Im Bank's entire credit portfolio. The credit subsidy appropriations are obligated to cover the estimated subsidy costs at the time loans, guarantees and insurance are committed. As the loans are disbursed or when the insured or guaranteed event has taken place (generally when the related goods are shipped), the obligated amounts are used to cover the estimated costs of the subsidies related to the disbursements and shipments. The portion of the appropriation related to Ex-Im Bank's lending programs is used to partially finance the loan disbursements while the portions related to Ex-Im Bank's guarantee and insurance programs are invested in an interest-bearing account with the U.S. Treasury. Prior to this use, all of the appropriated funds are held in a non-interest-bearing U.S. Treasury account.

Because financial and economic factors affecting the repayment prospects change over time, the net estimated subsidy cost of the outstanding balance of loans, guarantees and insurance financed by the subsidies is re-estimated annually in accordance with OMB guidelines. Re-estimates that result in decreases in estimated subsidy costs result in excess funds returned to the U.S. Treasury while increases in subsidy costs are covered by additional appropriations, which become automatically available. Ex-Im Bank calculates an annual re-estimate of the subsidy costs during the last quarter of the fiscal year. This re-estimate indicates the appropriate level necessary in the

Total Exposure:

(in millions)

Region	Amount	Percent
Asia	\$17,517.8	27.8%
Latin America	13,924.0	22.1%
Europe/Canada	11,141.0	17.7%
Africa/Middle East	10,221.0	16.2%
All Other	10,148.7	16.2%
Total	\$62,952.5	100.0%

(in millions)

Industry	Amount	Percent
Air Transportation	\$24,935.1	39.6%
Oil and Gas	6,681.2	10.6%
Power Projects	5,696.2	9.0%
Manufacturing	5,465.2	8.8%
All Other	20,174.8	32.0%
Total	\$62,952.5	100.0%

At September 30, 2005, Ex-Im Bank's five largest (public and private) obligors made up 17.7 percent of the credit portfolio.

(in millions)

Obligor	Amount	Percent
Pemex	\$4,346.3	6.9%
Korean Air Lines	1,912.2	3.0%
International Lease Finance Corp.	1,680.2	2.7%
Ryanair Ltd.	1,658.8	2.6%
Industrial & Commercial Bank of China	1,571.1	2.5%
All Other	51,783.9	82.3%
Total	\$62,952.5	100.0%

The largest exposures by program by country are as follows as of September 30, 2005:

Loans Outstanding:

(\$ millions)

Country	Amount	Percent
Brazil	\$1,765.1	21.1%
Indonesia	1,605.4	19.2%
China	1,025.7	12.3%
Nigeria	702.6	8.4%
All Other	3,255.4	39.0%
Total	\$8,354.2	100.0%

Subrogated Claims:

(in millions)

Country	Amount	Percent
Algeria	\$584.0	16.1%
Indonesia	514.7	14.2%
Democratic Republic of Congo	450.0	12.4%
Nigeria	244.5	6.7%
All Other	1,832.0	50.6%
Total	\$3,625.2	100.0%

Guarantees, Insurance and Undisbursed Loans:

(in millions)

Country	Amount	Percent
Mexico	\$5,477.4	10.7%
China	3,984.9	7.8%
Turkey	2,667.5	5.2%
Korea	2,935.8	5.8%
All Other	35,907.5	70.5%
Total	\$50,973.1	100.0%

15. BORROWINGS

Ex-Im Bank's outstanding borrowings come from three sources: direct borrowing from the U.S. Treasury, the assumption of repayment obligations of defaulted guarantees under Ex-Im Bank's guarantee program via payment certificates, and borrowings of VIEs consolidated on Ex-Im Bank's financial statements.

Payment certificates are issued by Ex-Im Bank in exchange for the foreign importer's original note that was guaranteed by Ex-Im Bank on which Ex-Im Bank has paid

a claim and carries the same repayment term and interest rate as the foreign importer's note. Payment certificates are backed by the full faith and credit of the U.S. government and are freely transferable.

Outstanding Payment certificates at September 30, 2005, and September 30, 2004, were \$297.2 million and \$448.5 million, respectively. Maturities of payment certificates at September 30, 2005, are as follows:

(in millions)

Fiscal Year	Amount
2006	\$109.0
2007	63.6
2008	34.7
2009	20.2
Thereafter	69.7
Total	\$297.2

The weighted-average-interest rate on Ex-Im Bank's outstanding payment certificates at September 30, 2005, was 5.67 percent and at September 30, 2004, was 5.90 percent.

U.S. Treasury borrowings are repaid primarily with the repayments of medium-term and long-term loans. To the extent repayments on the underlying loans, combined with commitment and exposure fees and interest earnings received on the loans, are not sufficient to repay the borrowings, appropriated funds are available to Ex-Im Bank through the re-estimation process for this purpose. Accordingly, U.S. Treasury borrowings do not have a set repayment schedule; however, the full amount of the borrowings is expected to be repaid by fiscal year 2033. Ex-Im Bank had \$5,848.3 million and \$7,237.2 million of borrowings outstanding with the U.S. Treasury at September 30, 2005, and September 30, 2004, respectively, with a weighted-average-interest rate of 5.80 percent at September 30, 2005, and 5.69 percent at September 30, 2004.

At September 30, 2005, and September 30, 2004, outstanding borrowings consolidated from VIEs were \$5,150.3 million and \$4,008.5 million, respectively. Most of the borrowings carry a floating rate of interest. The weighted-average-interest rate at September 30, 2005, and September 30, 2004, was 3.49 percent and 3.01 percent, respectively. These borrowings have a final maturity date of 2017.

The principal and interest repayments for the outstanding borrowings consolidated from VIEs at September 30, 2005, for each of the five succeeding fiscal years are as follows: \$605.9 million in 2006, \$602.9 million in 2007, \$598.8 million in 2008, \$594.2 million in 2009, and \$585.6 million in 2010, with the balance of \$3,223.7 million to be paid by 2017.

16. RELATED-PARTY TRANSACTIONS

The financial statements reflect the results of contractual agreements with the Private Export Funding Corporation (PEFCO). PEFCO, which is owned by a consortium of private-sector banks, industrial companies and financial services institutions, makes medium-term and long-term fixed and variable rate loans to foreign borrowers to purchase U.S.-made equipment when such loans are not available from traditional private-sector lenders on competitive terms. Ex-Im Bank's credit and guarantee agreement with PEFCO extends through December 31, 2020. Through its contractual agreements with PEFCO, Ex-Im Bank exercises a broad measure of supervision over PEFCO's major financial management decisions, including approval of both the terms of individual loan commitments and the terms of PEFCO's long-term debt issues, and is entitled to representation at all meetings of PEFCO's board of directors, advisory board and exporters' council.

PEFCO has agreements with Ex-Im Bank which provide that Ex-Im Bank will (1) guarantee the due and punctual payment of principal and interest on export loans made by PEFCO, and (2) guarantee the due and punctual payment of interest on PEFCO's long-term secured-debt obligations when requested by PEFCO. Such guarantees, aggregating \$4,936.1 million at September 30, 2005 (\$4,225.4 million related to export loans and \$710.7 million related to secured-debt obligations) and \$4,542.3 million at September 30, 2004 (\$3,832.6 million related to export loans and \$709.7 million related to secured-debt obligations), are included by Ex-Im Bank in the total for guarantee, insurance and undisbursed loans and the allowance related to these transactions is included in the allowance for guarantees in the Statements of Financial Position. Ex-Im Bank received fees totaling \$26.6 million in fiscal year 2005 (\$26.4 million related to export loans and \$0.2 million related to secured-debt obligations) and \$26.1 million in fiscal year 2004 (\$25.8

million related to export loans and \$0.3 million related to secured-debt obligations) for the agreements, which are included in the amount listed in Exposure Fees for Guarantees on the Statements of Operations.

Ex-Im Bank has significant transactions with the U.S. Treasury. The U.S. Treasury, although not exercising control over Ex-Im Bank, holds the capital stock of Ex-Im Bank creating a related-party relationship between Ex-Im Bank and the U.S. Treasury.

17. PENSIONS AND ACCRUED ANNUAL LEAVE

Virtually all of Ex-Im Bank's employees are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS).

In 2005 Ex-Im Bank withheld 7.0 percent of CSRS employees' gross earnings. Ex-Im Bank's contribution was 7.0 percent of employees' gross earnings. This sum was transferred to the CSRS fund from which this employee group will receive retirement benefits.

For FERS, Ex-Im Bank withheld 0.8 percent of employees' gross earnings. Ex-Im Bank's contribution was 10.7 percent of employees' gross earnings. This sum was transferred to the FERS fund from which the employee group will receive retirement benefits. An additional 6.2 percent of gross earnings is withheld; that plus matching contributions by Ex-Im Bank are sent to the Social Security System from which the FERS employee group will receive Social Security benefits.

FERS and CSRS employees may elect to participate in the Thrift Savings Plan (TSP). CSRS employees may contribute up to 10 percent of gross earnings. FERS employees may contribute up to 15 percent of gross earnings. In addition, FERS employees receive an automatic 1 percent contribution from Ex-Im Bank. Amounts withheld for FERS employees are matched by Ex-Im Bank, up to 4 percent, for a maximum Ex-Im Bank contribution to the TSP of 5 percent.

Total Ex-Im Bank (employer) matching contributions to the Thrift Savings Plan, CSRS and FERS for all employees, included in administrative expenses, were approximately \$4.7 million and \$4.1 million for fiscal year 2005 and fiscal year 2004, respectively.

Although Ex-Im Bank funds a portion of pension benefits under the CSRS and FERS relating to its employees and makes the necessary payroll withholdings for them, it has no liability for future payments to employees under these programs and does not account for the assets of the CSRS and FERS, nor does it have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by the Office of Personnel Management (OPM) for the Retirement Systems and are not allocated to the individual employers. OPM also accounts for the health and life insurance programs for current and retired civilian federal employees. Similar to the accounting treatment afforded the retirement programs, the actuarial data related to the health and life insurance programs is maintained by OPM and is not available on an individual employer basis.

Ex-Im Bank's liability to employees for accrued annual leave, included in other liabilities, was \$2.7 million at the end of September 30, 2005, and for the fiscal year ended September 30, 2004.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments to which Ex-Im Bank has a contractual obligation to deliver cash or a contractual right to receive cash from another entity were estimated based on the methods and assumptions identified with each class of financial instrument listed below.

Loans Receivable, Receivables from Subrogated Claims, Guarantees and Insurance

Substantially all of these instruments involve credit risks that private lenders or guarantors would not accept. However, as discussed in Note 2, the Credit Reform Act requires Ex-Im Bank to calculate the net present value of the cost of its credit programs based on management's assumptions with respect to future economic conditions, the amount and timing of future cash flows, and estimated discount rates. Ex-Im Bank believes that the values derived by applying these assumptions to Ex-Im Bank's loans, claims, guarantees and insurance approximate their fair values.

Borrowings and Claims Payable

The fair value of these instruments were estimated based on discounting the future cash flows using interest rates currently available to Ex-Im Bank for borrowings from the U.S. Treasury for comparable maturities. The interest rate for claims payable used to discount future cash flows is the six-month LIBOR rate plus 50 basis points.

(in millions)	September 30, 2005		September 30, 2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS:				
Cash	\$3,981.3	\$3,981.3	\$5,095.5	\$5,095.5
Loans Receivable, Net	5,036.7	5,144.6	5,225.4	5,163.9
Receivables From Subrogated Claims, Net	1,222.4	1,222.4	1,272.4	1,272.4
FINANCIAL LIABILITIES:				
Guarantees, Insurance and Undisbursed Loans	\$4,967.7	\$4,473.2	\$6,151.3	\$6,353.5
Borrowings from the U.S. Treasury	5,848.3	6,559.1	7,237.2	8,334.2
Borrowings Consolidated from VIEs	5,150.3	5,136.3	4,008.5	3,865.1
Payment Certificates	297.2	320.5	448.5	486.7
Claims Payable	7.9	7.9	12.1	12.1

The carrying value of guarantees, insurance and undisbursed loans shown above is higher than amount shown on the balance sheet by the balance of offsetting deferred fees.

Use of different methods and assumptions could significantly affect these estimates. Accordingly, the net realizable value could be materially different.

19. COMMITMENTS AND CONTINGENCIES

Office Space Lease

Ex-Im Bank's office space is leased primarily from the General Services Administration (GSA) through the Public Buildings Fund. The annual lease amount is determined each year at the discretion of GSA. Lease expenses, included in administrative expenses, were \$4.7 million and \$4.0 million for fiscal years 2005 and 2004, respectively.

Pending Litigation

As of the end of September 30, 2005, Ex-Im Bank was named in several legal actions, virtually all of which involved claims under the guarantee and insurance programs. It is not possible to predict the eventual outcome of the various actions; however, it is management's opinion that these claims will not result in liabilities to such an extent they would materially affect the financial position or results of operations of Ex-Im Bank.

Project Finance

In project finance cases, Ex-Im Bank's assistance during the construction period generally is in the form of a direct credit or comprehensive guarantee to the private lender. At the end of the construction period, the borrower in some cases has the opportunity to convert the private-guaranteed financing to an Ex-Im Bank direct loan. As of September 30, 2005, Ex-Im Bank had \$1,099.3 million of such contingent loan commitments outstanding.

Government GAAP/GAAP Statements of Financial Position Reconciliation

(in millions)	September 30, 2005		September 30, 2004	
	GAAP	GOVERNMENT GAAP	GAAP	GOVERNMENT GAAP
ASSETS				
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
Total Assets	\$15,390.8	\$11,826.3	\$15,553.8	\$13,706.5
LIABILITIES & EQUITY				
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
Total Liabilities	18,863.0	10,836.6	19,508.3	12,626.0
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)
Total Stockholder's (Deficiency)/Equity	(3,472.2)	989.7	(3,954.5)	1,080.5
Total Liabilities and Stockholders Equity	\$15,390.8	\$11,826.3	\$15,553.8	\$13,706.5

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.

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 guaranties.

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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Balance Sheet

(in millions)	September 30, 2006	September 30, 2005
ASSETS		
Intragovernmental		
Fund Balance with the U.S. Treasury	\$3,230.2	\$3,957.2
Receivable from the Program Account	520.4	375.6
Total Assets - Intragovernmental	3,750.6	4,332.8
Public		
Cash	9.4	0.2
Loans Receivable, Net	4,526.1	5,617.4
Receivables from Subrogated Claims, Net	991.2	1,849.5
Other Assets	30.0	26.4
Total Assets - Public	5,556.7	7,493.5
Total Assets	\$9,307.3	\$11,826.3
LIABILITIES		
Intragovernmental		
Borrowings from the U.S. Treasury	\$4,910.7	\$5,848.3
Amounts Payable to the U.S. Treasury	1,826.8	1,973.5
Liability Related to Undisbursed Loans and Guarantees Payable to the Financing Account	279.1	286.4
Payable to the Financing Account	241.3	89.2
Total Liabilities - Intragovernmental	7,257.9	8,197.4
Public		
Payment Certificates	195.3	\$297.2
Claims Payable	10.8	7.9
Guarantee Loan Liability	1,272.4	2,284.8
Other Liabilities	37.0	49.3
Total Liabilities - Public	1,515.5	2,639.2
Total Liabilities	8,773.4	10,836.6
NET POSITION		
Capital Stock	1,000.0	1,000.0
Unexpended Appropriations	637.0	863.7
Cumulative Results of Operations	(1,103.1)	(874.0)
Total Net Position	533.9	989.7
Total Liabilities and Net Position	\$9,307.3	\$11,826.3

The accompanying notes are an integral part of the financial statements.

Statement of Net Costs

(in millions)	For the Year Ended September 30, 2006	For the Year Ended September 30, 2005
LOANS		
Costs		
Interest Expense	\$316.9	\$380.4
Subsidy Expense, Net	(222.9)	(209.5)
Provision for Credit Losses	131.4	(96.7)
Total Costs	225.4	74.2
Earned Revenue		
Interest Income	(886.6)	(827.3)
Fee and Other Income	(4.9)	(5.0)
Total Earned Revenue	(891.5)	(832.3)
Net Excess of Program Revenue Over Costs	(666.1)	(758.1)
GUARANTEES		
Costs		
Claim Expenses	21.1	29.4
Subsidy Expense, Net	(520.8)	(739.8)
Provision for Credit Losses	(263.3)	(15.8)
Total Costs	(763.0)	(726.2)
Earned Revenue		
Interest Income	(235.0)	(196.7)
Fees and Other Income	(240.6)	(283.2)
Total Earned Revenue	(475.6)	(479.9)
Net Excess of Program Revenue Over Costs	(1,238.6)	(1,206.1)
INSURANCE		
Costs		
Claim Expenses	5.1	3.2
Subsidy Expense, Net	134.1	41.4
Broker Commissions	4.6	4.4
Total Costs	143.8	49.0
Earned Revenue		
Insurance Premium and Other Income	(36.9)	(29.3)
Net Excess of Program Costs Over Revenue	106.9	19.7
COSTS NOT ASSIGNED TO PROGRAMS		
Administrative Costs	72.6	68.4
Liquidating Account Distribution of Income	627.5	501.0
Net Excess of Program Revenue Over Costs	\$(1,097.7)	\$(1,375.1)

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Position

	Balance at September 30, 2006				Balance at September 30, 2005			
	Capital Stock	Unexpended Appropriations	Cumulative Results of Operations	Total	Capital Stock	Unexpended Appropriations	Cumulative Results of Operations	Total
BEGINNING NET POSITION	\$1,000.0	\$863.7	\$(874.0)	\$989.7	\$1,000.0	\$1,139.1	\$(1,058.6)	\$1,080.5
BUDGETARY FINANCING SOURCES (USES)								
Appropriations Received - Program	-	100.0	-	100.0	-	59.8	-	59.8
Appropriations Received - Administrative Expenses	-	73.2	-	73.2	-	73.2	-	73.2
Appropriations Received - Inspector General	-	1.0	-	1.0	-	-	-	-
Appropriations Received - Re-estimate	-	89.2	-	89.2	-	343.9	-	343.9
Rescissions	-	(63.7)	-	(63.7)	-	(1.1)	-	(1.1)
Canceled Authority	-	(107.2)	-	(107.2)	-	(78.4)	-	(78.4)
Transfer In - Debt Reduction Financing	-	-	-	-	-	-	46.4	46.4
Transfer Out Without Reimbursement	-	-	(1,643.3)	(1,643.3)	-	-	(1,858.1)	(1,858.1)
Other Adjustments	-	(0.4)	(2.3)	(2.7)	-	(45.0)	(6.6)	(51.6)
Appropriations Used	-	(318.8)	318.8	-	-	(627.8)	627.8	-
Total Financing Sources (Uses)	-	(226.7)	(1,326.8)	(1,553.5)	-	(275.4)	(1,190.5)	(1,465.9)
Less: Excess of Program Revenue Over Costs	-	-	(1,097.7)	(1,097.7)	-	-	(1,375.1)	(1,375.1)
Ending Net Position	\$1,000.0	\$637.0	\$(1,103.1)	\$533.9	\$1,000.0	\$863.7	\$(874.0)	\$989.7

The accompanying notes are an integral part of the financial statements.

Combined Statement of Budgetary Resources

	For the Year Ended September 30, 2006			For the Year Ended September 30, 2005		
	Budgetary	Nonbudgetary Credit-Reform Financing Accounts	Total	Budgetary	Nonbudgetary Credit-Reform Financing Accounts	Total
BUDGETARY RESOURCES						
Unobligated Balance, Brought Forward October 1	\$674.7	\$2,766.9	\$3,441.6	\$790.0	\$3,278.8	\$4,068.8
Recoveries of Prior-Year Unpaid Obligations	43.6	10.9	54.5	145.9	317.1	463.0
Budget Authority:						
Appropriation	263.4	-	263.4	476.9	-	476.9
Borrowing Authority	-	-	-	-	160.0	160.0
Spending Authority from Offsetting Collections	636.7	3,028.3	3,665.0	478.7	2,528.3	3,007.0
Nonexpenditure Transfers, Net, Anticipated and Actual	(627.4)	(937.5)	(1,564.9)	(501.0)	(1,548.9)	(2,049.9)
Permanently Not Available	(68.5)	-	(68.5)	(40.1)	-	(40.1)
Total Budgetary Resources	\$922.5	\$4,868.6	\$5,791.1	\$1,350.4	\$4,735.3	\$6,085.7
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred, Direct	\$373.2	\$2,574.8	\$2,948.0	\$675.7	\$1,968.4	\$2,644.1
Unobligated Balance Apportioned	463.4	2,293.8	2,757.2	601.9	2,766.9	3,368.8
Unobligated Balance Not Available	85.9	-	85.9	72.8	-	72.8
Total Status of Budgetary Resources	\$922.5	\$4,868.6	\$5,791.1	\$1,350.4	\$4,735.3	\$6,085.7
CHANGE IN OBLIGATED BALANCE						
Obligated Balance, Net:						
Unpaid Obligations, Brought Forward October 1	\$274.8	\$163.3	\$438.1	\$444.7	\$475.2	\$919.9
Obligations Incurred, Net	373.2	2,574.8	2,948.0	675.7	1,968.4	2,644.1
Gross Outlays	(333.8)	(2,638.2)	(2,972.0)	(699.7)	(1,963.2)	(2,662.9)
Recoveries of Prior-Year Unpaid Obligations	(43.6)	(10.9)	(54.5)	(145.9)	(317.1)	(463.0)
Obligated Balance, Net, End of Period:						
Unpaid Obligations	270.6	89.0	359.6	274.8	163.3	438.1
Total, Unpaid Obligated Balance, Net, End of Period	\$270.6	\$89.0	\$359.6	\$274.8	\$163.3	\$438.1
NET OUTLAYS						
Gross Outlays	\$333.8	\$2,638.2	\$2,972.0	\$699.7	\$1,963.2	\$2,662.9
Less: Offsetting Collections	(636.7)	(3,028.3)	(3,665.0)	(478.7)	(2,528.4)	(3,007.1)
Net Outlays	\$(302.9)	\$(390.1)	\$(693.0)	\$221.0	\$(565.2)	\$(344.2)

The accompanying notes are an integral part of the financial statements.

Statement of Financing

(in millions)	For the Year Ended September 30, 2006	For the Year Ended September 30, 2005
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	\$2,948.0	\$2,644.1
Less: Spending Authority from Offsetting Collections and Recoveries	3,719.5	3,470.0
Net Obligations	(771.5)	(825.9)
Total Resources Used To Finance Activities	(771.5)	(825.9)
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but Not Yet Provided	78.5	481.8
Resources That Fund Expenses in Prior Periods	(89.2)	(288.8)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations		
– Credit-Program Collections	2,321.2	1,749.2
Resources That Finance the Acquisition of Assets	(2,306.2)	(1,615.7)
Distribution of Income	627.5	501.0
Total Resources That Do Not Finance Net Cost of Operations	631.8	827.5
Total Resources Used To Finance the Net Cost of Operations	(139.7)	1.6
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods		
Increase in Other Liabilities	5.2	-
Allowance Amortization	635.5	590.2
Provision for Loss - Precredit-Reform Credits	(131.9)	(112.5)
Downward Re-estimates of Credit-Subsidy Expenses	(1,402.0)	(1,768.9)
Change in Receivables	(11.4)	(3.0)
Change in Payables	(1.0)	(0.4)
Total Components Requiring or Generating Resources in Future Periods	(905.6)	(1,294.6)
Components Not Requiring or Generating Resources		
Revaluation of Assets or Liabilities	(3.2)	(0.1)
Deferral Adjustments	(49.2)	(82.0)
Total Components Not Requiring or Generating Resources	(52.4)	(82.1)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	(958.0)	(1,376.7)
Excess of Program Revenue Over Costs	\$(1,097.7)	\$(1,375.1)

The accompanying notes are an integral part of the financial statements.

Export-Import Bank of the United States

Notes to the Financial Statements

For the Years Ended September 30, 2006 and 2005

1. Summary of Significant Accounting and Reporting Policies

Enabling Legislation and Mission

The Export-Import Bank of the United States (Ex-Im Bank) is an independent executive agency and a wholly owned U.S. government corporation that was first organized as a District of Columbia banking corporation in 1934. Ex-Im Bank is the official export-credit agency of the United States. Ex-Im Bank's operations subsequent to September 30, 1991, are subject to the provisions of the Federal Credit Reform Act (FCRA) of 1990 (P.L. 101-508), which became effective October 1, 1991. The Export-Import Bank Reauthorization Act of 2006 extended the Bank's charter until September 30, 2011.

Ex-Im Bank's mission is to support U.S. exports by providing export financing through its loan, guarantee and insurance programs in cases where either the private sector is unable or unwilling to provide financing or when such support is necessary to level the playing field due to financing provided by foreign governments to their exporters that

are in competition for export sales with U.S. exporters. By facilitating the financing of U.S. exports, Ex-Im Bank helps companies create and maintain U.S. jobs. The Bank's charter requires reasonable assurance of repayment for the transactions it authorizes, and the Bank closely monitors credit and other risks in its portfolio. In pursuit of its mission of supporting U.S. exports, Ex-Im Bank offers four financial products: direct loans, loan guarantees, working capital guarantees and export-credit insurance. All Ex-Im Bank guarantees carry the full faith and credit of the U.S. government.

Ex-Im Bank offers fixed-rate loans directly to foreign buyers of U.S. goods and services. Ex-Im Bank extends to a company's foreign customer a fixed-rate loan covering up to 85 percent of the U.S. contract value. The buyer must make a cash payment to the U.S. exporter of at least 15 percent of the U.S. contract value. Ex-Im Bank's direct loans carry the lowest fixed-interest rate permitted for the importing country and term under the Arrangement on Guidelines for Officially Supported Export Credits negotiated among members of the Organization for Economic Cooperation and Development (OECD).

Ex-Im Bank loan guarantees cover the repayment risks on the foreign buyer's debt obligations incurred to purchase U.S. exports. Ex-Im Bank guarantees to a lender that, in the event of a payment default by the borrower, it will pay to the lender the outstanding principal and interest on the loan. Ex-Im Bank's comprehensive guarantee covers all of the commercial and political risks for up to 85 percent of the U.S. contract value.

Ex-Im Bank extends medium-term and long-term direct loans and loan guarantees to foreign buyers of U.S. exports. Loans and guarantees extended under the medium-term loan program typically have repayment terms of one to seven years, while loans and guarantees extended under the long-term loan program usually have repayment terms in excess of seven years. Generally, both the medium-term and long-term loan and guarantee programs cover up to 85 percent of the U.S. contract value of shipped goods.

Under the Working Capital Guarantee Program, Ex-Im Bank provides repayment guarantees to lenders on secured, short-term working capital loans made to qualified exporters. The working capital guarantee may be approved for a single loan or a revolving line of credit. Ex-Im Bank's working capital guarantee protects the lender from default by the exporter for 90 percent of the loan principal and interest.

Ex-Im Bank's Export-Credit Insurance Program help U.S. exporters sell their goods overseas by protecting them against the risk of foreign-buyer or other foreign-debtor default for political or commercial reasons, allowing them to extend credit to their international customers. Insurance policies may apply to shipments to one buyer or many buyers, insure comprehensive (commercial and political) credit risks or only political risks, and cover short-term or medium-term sales.

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 and Management and Budget (OMB) Circular A-136.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant of these estimates are the allowances for losses and allowance for subsidy cost on loans receivable, subrogated claims receivable, guarantees and insurance. In prior years, Ex-Im Bank used proxy recovery rates developed by OMB to calculate loss estimates; however, Ex-Im Bank has incorporated actual historical recovery experience in calculating FY 2005 and FY 2006 loss estimates. Ex-Im Bank's historical recovery experience has been better than the proxy recovery rates previously provided by OMB.

Loans Receivables, Net

Loans obligated prior to FY 1992 (precredit-reform credits) are carried at principal and interest receivable amounts less an allowance for loan losses. Loans obligated after FY 1991 (credit-reform credits) are carried at principal and interest receivable amounts less an allowance for subsidy cost.

From time to time, Ex-Im Bank extends the repayment date and may modify the interest rate of some or all principal installments of a loan because the obligor or country has encountered financial difficulty and Ex-Im Bank has determined that providing relief in this manner will enhance the ability to collect the loan.

Receivables from Subrogated Claims, Net

Receivables from subrogated claims represent the outstanding balance of payments that were made on claims that were submitted to Ex-Im Bank in its capacity as guarantor or insurer under Ex-Im Bank's Guarantee or Export-Credit Insurance Programs. Receivables from subrogated claims are carried at principal and interest receivable amounts and an allowance for claim losses. Under the subrogation clauses in its guarantee and insurance contracts, Ex-Im Bank receives all rights, title and interest in all amounts relating to claims paid under insur-

ance policies and guarantees and therefore establishes an asset to reflect such rights.

Accrued Interest

Interest is accrued on loans and claims as it is earned. Generally, loans and subrogated claims receivable delinquent 90 days or more are placed on a nonaccrual status unless they are well-secured and significant collections have been received. At the time that a loan or claim is placed on nonaccrual status, any accrued but unpaid interest previously recorded is reversed against current period interest income. The interest on these loans is accounted for on a cash basis until qualifying for return to accrual status. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Accounting for Capitalized Interest on Rescheduled Loans and Subrogated Claims

Rescheduling agreements frequently allow for Ex-Im Bank to add uncollected interest to the principal balance of rescheduled loans and subrogated claims receivable (i.e., capitalized interest). When capitalized, any accrued interest receivable is reversed against current period's interest income. The amount of interest that was capitalized and included in the principal balance is recorded as income when cash collections occur and only after all principal not related to the capitalized interest is paid. An allowance is established for all uncollected capitalized interest.

Allowance for Losses on Loans, Guarantees, Insurance and Subrogated Claims

The total allowance for Ex-Im Bank credits is comprised of the allowance for loss on precredit-reform credits and the allowance for subsidy cost for credit-reform credits. For precredit-reform credits, a provision is charged to earnings as losses are estimated to have occurred.

Write-offs are charged against the allowance when management believes the uncollectibility of a loan or claim balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for Ex-Im Bank credit-reform credits equates to the amount of subsidy cost associated with the applicable credit. The subsidy cost is defined as the net present value of all the cash flows of the credits to and from the U.S. government. Ex-Im Bank has established cash flow models for expected defaults, fees and

recoveries to estimate the subsidy cost for each approved credit. The models incorporate OMB's loss estimates for international credit programs and Ex-Im Bank's actual recovery experience.

The net subsidy cost of credit-reform loans, guarantees and insurance is re-estimated annually in accordance with OMB guidelines. The re-estimates adjust the allowance for subsidy cost to account for actual activity and changes in the financial and economic factors that affect the repayment prospects over time.

Accounting for Guarantees in a Foreign Currency

Ex-Im Bank provides guarantees and insurance denominated in certain foreign currencies. The foreign currencies approved for Ex-Im Bank guarantees as of September 30, 2006, are: Australian dollar, Brazilian real, British pound, Canadian dollar, CFA franc, Colombian peso, Egyptian pound, euro, Indian rupee, Japanese yen, Malaysian ringgit, Mexican peso, Moroccan dirham, New Zealand dollar, Pakistani rupee, Philippine peso, Russian ruble, South African rand, Swedish krona, Swiss franc, Taiwanese dollar and Thai baht. At the time of authorization, Ex-Im Bank records the dollar amount equivalent to the foreign-currency obligation approved by the Board of Directors based on the exchange rate at that time. At the end of each fiscal year, Ex-Im Bank determines the dollar equivalent of the outstanding balance for each foreign-currency guarantee based on the exchange rate at the end of the year and adjusts the guarantee loan liability accordingly.

Borrowings from the U.S. Treasury

The main source of Ex-Im Bank's outstanding debt is borrowings from the U.S. Treasury. Borrowings from the U.S. Treasury are used primarily to finance medium-term and long-term loans. These borrowings carry a fixed rate of interest. They are further discussed in Note 11.

Payment Certificates

Payment certificates represent Ex-Im Bank's outstanding borrowings related to specific claims for which Ex-Im Bank is paying the guaranteed lender as the guaranteed installments become due. Payment certificates are issued by Ex-Im Bank in exchange for the foreign importer's defaulted note that was guaranteed by Ex-Im Bank, and the payment certificates carry the same repayment terms and interest rate as the guaranteed foreign-importer's note. Payment certificates are backed by the full faith and credit of the U.S. government and are freely transferable.

Claims Payable

Liabilities for claims arising from Ex-Im Bank's guarantee and insurance activities and the related estimated losses and claim recovery expenses are accrued upon approval of a claim.

Amounts Payable to the U.S. Treasury

Amounts payable to the U.S. Treasury include the results of the subsidy cost re-estimate required under the FCRA. The payable represents funds that are held in credit-reform financing accounts that are determined to be in excess of amounts needed to cover future defaults. The payable also includes expired appropriations no longer available for obligation that will be returned to the U.S. Treasury.

Fees and Premiums

Ex-Im Bank charges a risk-related exposure fee under both the loan and guarantee programs that is collected on each loan disbursement or shipment of goods under the guarantee policy.

On working capital guarantees, Ex-Im Bank charges an up-front facility fee, which, due to the short-term nature of the contracts, is credited to income as collected. Premiums charged under insurance policies are recognized as income using a method that generally reflects the exposure over the term of the policy.

Appropriated Capital

Appropriations received by Ex-Im Bank pursuant to the FCRA are recorded as paid-in-capital. Appropriations not required to finance credit activities are returned to the U.S. Treasury when the period of availability ends.

Congress has appropriated certain sums specifically for Ex-Im Bank's tied-aid activities. Tied aid is government-to-government concessional financing of public-sector capital projects in developing countries. Tied-aid terms usually involve total maturities longer than 20 years, lower than market interest rates and/or direct grants.

Liquidating Account Distribution of Income

Ex-Im Bank maintains a liquidating account that accumulates the repayment on loans issued prior to the FCRA and any collections on claims. At the end of each fiscal year, Ex-Im Bank transfers the balance in this account to the U.S. Treasury. The amount transferred is detailed on the accompanying Statement of Net Costs.

2. Fund Balance with the U.S. Treasury

Fund balances as of fiscal years 2006 and 2005 were as follows:

(in millions)	FY 2006	FY 2005
Revolving Funds	\$2,382.9	\$2,937.4
Unexpended Appropriated Funds	824.6	981.6
Unallocated Cash	22.7	38.2
Total	\$3,230.2	\$3,957.2
Status of Fund Balance with the U.S. Treasury		
Unobligated Balance		
Available	\$2,757.2	\$3,368.8
Expired	85.9	72.8
Canceled and Unavailable	4.8	39.3
Obligated Balance Not Yet		
Disbursed	359.6	438.1
Funds Pending Application	22.7	38.2
Total	\$3,230.2	\$3,957.2

Revolving funds are credit-reform financing accounts and cash balances in the precredit-reform revolving fund. Included in the credit-reform financing accounts are disbursed appropriations, exposure fees collected and interest that have been paid by the U.S. Treasury to Ex-Im Bank on the balances in the account. These funds are available to cover losses in Ex-Im Bank's credit programs. Unexpended appropriated funds are deposited in a noninterest-bearing account at the U.S. Treasury. These funds are available to Ex-Im Bank when the credit activity to which they relate takes place or to finance administrative expenses. Upon disbursement of the related loans or shipment of goods under guarantee or insurance policies, the funds become available to either subsidize the related loan disbursement or to be invested in the credit-reform financing accounts to fund the credit costs of the guarantee and insurance policies. Unallocated cash represents collections pending final application to the applicable loan or guarantee.

Unobligated available funds represent unexpired appropriations and funds held in credit-reform financing accounts for payment of future guarantee loan defaults. Unobligated expired funds represent appropriations that are no longer available for new obligations.

Unobligated canceled funds represent appropriations that are no longer available and will be returned to the U.S. Treasury in FY 2007.

As of September 30, 2006 and 2005, there were no unreconciled differences between Treasury records and balances reported on Ex-Im Bank's general ledger.

3. Cash

As of September 30, 2006 and 2005, there was \$9.4 million and \$.2 million in cash balances, respectively, held outside the U.S. Treasury. The \$9.4 million includes \$8.9 million related to a claim recovery that is being held in an escrow account pending further legal review. An additional \$0.5 million in FY 2006 and the balance of \$0.2 million in FY 2005 represents lockbox receipts for collection of insurance premiums that are transferred to one of Ex-Im Bank's U.S. Treasury accounts upon application to the appropriate credit. The remaining balance of \$0.1 million in FY 2006 represents other miscellaneous cash held pending disbursement.

4. Direct Loans and Loan Guarantees, Nonfederal Borrowers

A. Direct Loan, Loan Guarantee and Export-Credit Insurance Programs

Ex-Im Bank offers fixed-rate loans directly to foreign buyers of U.S. goods and services. Ex-Im Bank extends to a company's foreign customer a fixed-rate loan covering up to 85 percent of the U.S. contract value. The buyer must make a cash payment to the U.S. exporter of at least 15 percent of the U.S. contract value. Ex-Im Bank's direct loans carry the lowest fixed-interest rate permitted for the importing country and term under the Arrangement on Guidelines for Officially Supported Export Credits negotiated among OECD members.

Ex-Im Bank loan guarantees cover the repayment risks on the foreign buyer's debt obligations incurred to purchase U.S. exports. Ex-Im Bank guarantees to a lender that, in the event of a payment default by the borrower, it

will pay to the lender the outstanding principal and interest on the loan. Ex-Im Bank's comprehensive guarantee covers all of the commercial and political risks for 85 percent of the U.S. contract value.

Ex-Im Bank's Export-Credit Insurance Program helps U.S. exporters sell their goods overseas by protecting them against the risk of foreign buyer or other foreign debtor default for political or commercial reasons, allowing them to extend credit to their international customers. Insurance policies may apply to shipments to one buyer or many buyers, insure comprehensive (commercial and political) credit risks or only political risks, and cover short-term or medium-term sales.

Credit Reform

The FCRA significantly affected the manner in which Ex-Im Bank finances its credit activities. The primary purpose of the FCRA is to measure more accurately the cost of federal credit programs and to place the cost of such credit programs on a basis equivalent with other federal spending.

The Office of Management and Budget (OMB) established the Interagency Country Risk Assessment System (ICRAS) to provide a framework for uniformly measuring the costs of the U.S. government's international credit programs across the various agencies that administer them. The ICRAS methodology determines both the risk levels for lending to sovereign governments as well as certain factors to be used in calculating the program budget cost for transactions at the various risk levels.

ICRAS rates every country to which U.S. government agencies have outstanding loans or loan guarantees or are anticipating making new credits available. ICRAS rates countries on the basis of economic and political/social variables. There are 11 sovereign and nine nonsovereign risk categories, and ICRAS currently has risk ratings for 184 markets. Each country receives two ratings: a sovereign-risk rating and a private-risk rating.

In order to determine the cost associated with the risk of lending to a category of credits, OMB applies a default estimate to each risk category that reflects the expected losses. Agencies apply these default estimates by comparing the present-value cash flows discounted using a risk-free U.S. Treasury rate against the present value of identical cash flows discounted by a risk-adjusted discount rate built from the risk-free U.S. Treasury rate plus the historical average spread for the

risk category of the transaction under evaluation (the risk premia). The difference between these two present values is the present value of estimated defaults. This present-value default amount is spread over the maturity of the proposed transaction and is discounted using the standardized OMB Credit Subsidy Calculator.

Each precredit-reform credit is assigned one of 11 risk levels. Each risk level is identified with a loss percentage to determine the overall allowance on precredit-reform credits. OMB has provided the loss percentage for each risk level based on a risk-premia model it has developed to calculate subsidy costs. In previous years, this loss percentage has incorporated OMB proxy recovery rates. However, to calculate the allowance for loss more precisely, Ex-Im Bank has incorporated its actual historical recovery experience in the loss percentages.

FY 2006 and FY 2005 Activity

Ex-Im Bank received appropriations aggregating \$172.5 million in FY 2006 to support both the Bank's administrative costs and credit-program needs for providing new direct loans, guarantees and insurance. Ex-Im Bank received appropriations aggregating \$131.9 million in FY 2005 to support both the Bank's administrative costs and credit-program needs for providing new direct loans, guarantees and insurance. In addition, \$46.4 million was received in FY 2005 for debt reduction relating to Heavily Indebted Poor Countries (HIPC) and Iraq initiatives. The following table summarizes appropriations received and used during fiscal years 2006 and 2005:

(in millions)	FY 2006	FY 2005
RECEIVED AND AVAILABLE		
For Credit Subsidies	\$99.0	\$105.7
For Credit-related Administrative Costs	72.5	72.6
For Inspector General and Administrative Costs	1.0	-
Total Received	172.5	178.3
Unobligated Balance Carried Over from Prior Year	591.7	705.4
Rescission of Unobligated Balances	(62.0)	-
Cancellations of Prior-Year Obligations	20.7	68.2
Total Available	722.9	951.9
OBLIGATED		
For Credit Subsidies Excluding Tied-Aid	190.8	287.6
For Credit-related Administrative Costs	72.5	72.6
Subtotal	263.3	360.2
For Tied Aid	-	-
Total Obligated	263.3	360.2
UNOBLIGATED BALANCE		
Unobligated Balance	459.6	591.7
Unobligated Balance Lapsed	88.1	-
Remaining Balance	\$371.5	\$591.7

Of the remaining balance of \$371.5 million at September 30, 2006, \$1.0 million is available until September 30, 2007, \$43.6 million is available until September 30, 2008, \$99.0 million is available until September 30, 2009, and \$227.9 million is available until expended and may be used for tied aid.

The cost of credit risk (credit subsidies), shown above, is the net present value of expected cash receipts and cash disbursements associated with loans, guarantees and insurance. Cash receipts typically include fees or premiums and loan principal and interest, and cash disbursements typically include claim payments and loan disbursements. When the present value of expected cash receipts exceeds the present value of expected cash disbursements, a "negative" credit subsidy arises. Negative subsidies are remitted to the U.S. Treasury upon disbursement of the underlying credits. Ex-Im Bank transferred \$44.3 million and \$26.0 million of negative subsidies to the U.S. Treasury in FY 2006 and FY 2005, respectively.

The appropriation for administrative costs is based on an annual estimate of the costs to administer and service Ex-Im Bank's entire credit portfolio. The credit-subsidy appropriations are obligated to cover the estimated subsidy costs at the time loans, guarantees and insurance are committed. As the loans are disbursed or when the insured or guaranteed event has taken place (generally when the related goods are shipped), the obligated amounts are used to cover the estimated costs of the subsidies related to the disbursements and shipments. The portion of the appropriation related to Ex-Im Bank's lending programs is used to partially finance the loan disbursements while the portions related to Ex-Im Bank's guarantee and insurance programs are invested in an interest-bearing account with the U.S. Treasury. Prior to this use, all of the appropriated funds are held in a non-interest-bearing U.S. Treasury account.

Allowance for Loss

The process by which Ex-Im Bank determines its allowance for loss for each fiscal year involves assessing the repayment risk of the credit, which includes both commercial and political risk factors, then calculating the loss reserve based on the percentage of loss associated with the risk level assigned to the credit.

Sovereign risk is associated with an obligor that conveys the full faith and credit of its country. To rate sovereign obligors, Ex-Im Bank relies on the risk levels assigned to sovereign countries by ICRAS.

Nonsovereign obligors are divided into four categories for risk assessment purposes: (1) obligors in workout status, (2) obligors rated by third-parties rating agencies, i.e., Standard & Poor's and Moody's, (3) obligors not rated but publicly traded on local exchanges, and (4) obligors neither rated nor publicly traded on local exchanges.

After the political and commercial risks of the transaction are assessed, the transaction is assigned a risk rating based on the standard ICRAS classification. A major determinant of the risk rating is the sovereign-risk rating of the country in which the obligor or guarantor is located. Credit enhancements such as the availability of liens and offshore escrow accounts are taken into account.

For precredit-reform, nonimpaired loans receivable, Ex-Im Bank determines the allowance using the OMB risk premia. The allowance for losses on this exposure is calculated using the credit-loss estimate method. Consistent with industry practice in the private sector, this is an

estimate of the loss expected due to credit risk and does not include noncredit factors that are included in the fair-market value method.

Loss reserves on precredit-reform impaired credits are determined using the fair-value method. Ex-Im Bank generally considers a credit impaired if it meets one or more of the following: (1) delinquent loans and claims with an amount of \$50,000 or more past due at least 90 days, (2) rescheduled loans and rescheduled claims or (3) nondelinquent loans and claims above a certain risk rating.

The allowance for losses on precredit-reform contingent liabilities for medium-term and long-term guarantees is determined using the fair-value method.

The allowance for losses for credit-reform loans, guarantees and insurance is determined by the subsidy cost calculated at authorization and subsequent adjustments made to the allowance as a result of the annual subsidy cost re-estimate.

Subsidy Cost Re-estimate

Because financial and economic factors affecting the repayment prospects change over time, the net estimated subsidy cost of the outstanding balance of loans, guarantees and insurance financed by the subsidies is re-estimated annually in accordance with OMB guidelines. This re-estimate indicates the appropriate level necessary in the financing accounts. In the event that the fees, interest, and appropriations in the financing accounts exceed the re-estimate level, the difference will not be needed to cover commitments and will be returned to the U.S. Treasury. These amounts are included in the Amounts Payable to the U.S. Treasury on the Balance Sheet. In the event that the fees, interest and appropriations in the financing accounts are less than the re-estimate level, the FCRA provides that the difference will be transferred to Ex-Im Bank from a general appropriation account authorized for this purpose.

As of September 30, 2006, and September 30, 2005, a re-estimate of the subsidy costs of the outstanding balances of fiscal year 1992 through 2005 commitments indicated that of the fees, interest and appropriations in the financing accounts, the net amounts of \$1,402.0 million and \$1,768.9 million, respectively, were no longer needed to cover commitments and were due to the U.S. Treasury. These amounts are included in the Amounts Payable to the U.S. Treasury on the Balance Sheet.

Direct Loans

Ex-Im Bank's loans receivable, as shown on the Balance Sheet, are net of an allowance for loan losses.

To calculate the allowance for loan losses for direct loans obligated prior to FY 1992, each of the 11 risk levels is identified with a loss percentage to determine the overall allowance for credit losses as described above. Capitalized interest included in gross loans receivable is reserved at 100 percent. At September 30, 2006 and 2005, capitalized interest was \$413.7 million and \$1,105.0 million, respectively. The total allowance for direct loans obligated prior to FY 1992, including capitalized interest, equaled 79.2 percent and 74.8 percent, respectively, of gross loans and interest receivable. Excluding capitalized interest from the precredit-reform receivable balance and from the loss reserve yields an allowance of 59.1 percent and 35.2 percent, respectively, of loans and interest receivable.

The allowance for loss calculated for direct loans obligated since the commencement of FY 1992 equals the amount of subsidy cost incurred to support the loan obligation. The subsidy cost is the amount of loss estimated to be incurred on the transaction, as previously described. At September 30, 2006, and September 30, 2005, the allowance for loan losses on credit-reform credits equaled

16.4 percent and 22.3 percent, respectively, of the outstanding loans and interest receivable balance.

At September 30, 2006, and September 30, 2005, the allowance for both precredit-reform and credit-reform loans equaled 25.2 percent and 33.5 percent, respectively, of the total loans and interest receivable. Excluding capitalized interest from the total receivable balance and from the total loss reserve yields an allowance of 19.7 percent and 23.6 percent, respectively, of loans and interest receivable.

The outstanding balances related to rescheduled installments included in loans receivable at September 30, 2006, and September 30, 2005, were \$1,293.7 million and \$2,726.8 million, respectively. Loan principal installments of \$23.1 million were rescheduled during fiscal years 2006 and 2005. Loan installments of interest rescheduled during fiscal years 2006 and 2005 were \$28.5 million and \$31.8 million, respectively. The interest rate on rescheduled loans is generally a floating rate of interest, which is 37.5 to 62.5 basis points over Ex-Im Bank's cost of borrowing.

The net balance of loans receivable at September 30, 2006, and September 30, 2005, consists of the following:

FY 2006 (in millions)	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
Loans Obligated Prior to FY 1992	\$828.3	\$14.6	\$(667.3)	\$175.6
Loans Obligated After FY 1991	5,126.6	79.5	(855.6)	4,350.5
Total	\$5,954.9	\$94.1	\$(1,522.9)	\$4,526.1

FY 2005 (in millions)	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
Loans Obligated Prior to FY 1992	\$1,798.4	\$10.4	\$(1,353.0)	\$455.8
Loans Obligated After FY 1991	6,555.8	89.9	(1,484.1)	5,161.6
Total	\$8,354.2	\$100.3	\$(2,837.1)	\$5,617.4

(in millions)	FY 2006	FY 2005
Direct Loans Disbursed During Year (Post-1991)	\$44.5	\$202.5

B. Subsidy Expense for Direct Loans by Component

(in millions)	FY 2006	FY 2005
Interest	\$(0.3)	\$5.7
Defaults	4.9	40.7
Fees and Other Collections	(2.2)	(7.3)
Total	\$2.4	\$39.1
Subsidy Expense Related to HIPC		
Debt Forgiveness	-	29.6
Net Re-estimate – Principal	(255.0)	(256.5)
Net Re-estimate – Interest	(130.1)	(111.4)
Total Net Re-estimate	(385.1)	(367.9)
Total Direct Loan Subsidy Expense	\$(382.7)	\$(299.2)

C. Subsidy Rates for Direct Loans by Program and Component

The subsidy rates disclosed below pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year's cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates. Ex-Im Bank did not authorize any direct loans in FY 2005; therefore, there are no subsidy rates for FY 2005.

	FY 2006	FY 2005
Interest	(3.71)%	-
Defaults	13.05	-
Fees and Other Collections	(8.10)	-
Total	1.24%	-

D. Schedule for Reconciling Subsidy Cost Allowance Balances

(in millions)	FY 2006	FY 2005
POST-1991 DIRECT LOANS		
Beginning Balance of the Allowance Account	\$1,484.1	\$1,690.9
Current-Year Subsidy Expense (See Note 4B for Component Breakdown)	2.4	68.7
Fees Received	6.9	21.1
Loans Written Off	(370.2)	(6.4)
Subsidy Allowance Amortization	63.2	58.5
Miscellaneous Recoveries and Costs	54.3	19.2
Ending Balance Before Re-estimate	\$1,240.7	\$1,852.0
Re-estimate	(385.1)	(367.9)
Ending Balance of the Allowance Account	\$855.6	\$1,484.1

E. Defaulted Guaranteed Loans

The allowance for defaulted guaranteed loans is calculated using the fair-value method as described above. Capitalized interest included in gross defaulted guaranteed loans receivable is reserved at 100 percent. At September 30, 2006 and 2005, capitalized interest was \$161.9 million and \$342.5 million, respectively. The total

allowance equaled 58.1 percent and 49.1 percent, respectively, of gross defaulted guaranteed loans and interest receivable. Excluding capitalized interest from the receivable balance and from the loss reserve yields an allowance of 55.0 percent and 43.8 percent, respectively, of defaulted loans and interest receivable.

FY 2006 (in millions)	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Defaulted Guarantees, Net
Defaulted Guaranteed Loans Obligated Prior to FY 1992	\$350.4	\$0.2	\$(256.1)	\$94.5
Defaulted Guaranteed Loans Obligated After FY 1991	2,013.3	0.9	(1,117.5)	896.7
Total	\$2,363.7	\$1.1	\$(1,373.6)	\$991.2

FY 2005 (in millions)	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Defaulted Guarantees, Net
Defaulted Guaranteed Loans Obligated Prior to FY 1992	\$694.3	\$0.3	\$(341.3)	\$353.3
Defaulted Guaranteed Loans Obligated After FY 1991	2,930.9	6.1	(1,440.8)	1,496.2
Total	\$3,625.2	\$6.4	\$(1,782.1)	\$1,849.5

F. Guaranteed Loans and Insurance Outstanding

Ex-Im Bank is exposed to credit loss with respect to the amount of outstanding guaranteed loans and insurance policies in the event of nonpayment by obligors under the agreements. The commitments shown below are agreements to lend monies and issue guarantees and insurance as long as there is no violation of the conditions established in the credit agreement.

(in millions)	FY 2006	FY 2005
Outstanding Principal of Guaranteed Loans and Insurance, Face Value	\$49,430.2	\$50,870.8
Amount of Outstanding Principal Guaranteed and Insurance	49,430.2	50,870.8
Guaranteed Loans and Insurance Disbursed During Year, Face Value	10,871.5	10,926.1
Guaranteed Loans and Insurance Disbursed During Year, Amount Guaranteed	10,871.5	10,926.1

G. Liability for Loan Guarantees and Insurance

(in millions)	FY 2006	FY 2005
Liability for Losses on Pre-1992 Guarantees and Insurance	\$46.3	\$130.8
Liability for Losses on Post-1992 Guarantees and Insurance	1,226.1	2,154.0
Total Liabilities for Loan Guarantees and Insurance	\$1,272.4	\$2,284.8

Ex-Im Bank has authorized guarantee transactions denominated in a foreign currency during FY 2006 totaling \$1,753.4 million and authorized \$2,054.2 million during FY 2005, as calculated at the exchange rate at the time of authorization. Ex-Im Bank adjusts the allowance for all transactions denominated in a foreign currency using the various foreign-currency exchange rates at the end of the fiscal year.

H. Subsidy Expense for Loan Guarantees and Insurance by Component

(in millions)	FY 2006	FY 2005
Defaults	\$ 245.5	\$627.8
Fees and Other Collections	(91.0)	(396.1)
Total	154.5	231.7
Net Re-estimate – Principal	(578.6)	(1,164.0)
Net Re-estimate – Interest	(438.3)	(237.0)
Total Net Re-estimate	(1,016.9)	(1,401.0)
Total Loan Guarantee and Insurance Subsidy Expense	\$(862.4)	\$(1,169.3)

I. Subsidy Rates for Loan Guarantees and Insurance by Component

The subsidy rates disclosed below pertain only to the current year's cohorts. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year's cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.

	FY 2006	FY 2005
Defaults	3.28%	3.30%
Fees and Other Collections	(2.18)	(2.18)
Total	1.10%	1.12%

J. Schedule for Reconciling Subsidy Cost Allowance Balances

(in millions)	FY 2006	FY 2005
POST-1991 LOAN GUARANTEES		
Beginning Balance of the		
Allowance Account	\$2,154.0	\$2,922.6
Current-Year Subsidy Expense		
(See Note 4H for Component Breakdown)	148.8	226.3
Modifications	5.7	5.4
Fees Received	405.0	359.5
Claim Payments to Lenders	(323.3)	(26.5)
Interest Accumulation	84.7	99.7
Adjustments for Purchased Guaranteed Loans	(181.0)	(1.7)
Other	(50.9)	(30.3)
Ending Balance Before Re-estimate	2,243.0	3,555.0
Total Re-estimate	(1,016.9)	(1,401.0)
Ending Balance of the Allowance Account	\$1,226.1	\$2,154.0

K. Administrative Expense

(in millions)	FY 2006	FY 2005
Total Administrative Expense	\$72.6	\$68.4

L. Allowance and Exposure Summary

(in millions)	FY 2006	FY 2005
PRECREDIT-REFORM ALLOWANCE		
Allowance for Loan Losses	\$667.3	\$1,353.0
Allowance for Defaulted Guarantees	256.1	341.3
Liability for Outstanding Loan Guarantees	46.3	130.8
Total Precredit-Reform Allowance	969.7	1,825.1
CREDIT-REFORM ALLOWANCE		
Allowance for Loan Losses	855.6	1,484.1
Allowance for Defaulted Guarantees and Insurance	1,117.5	1,440.8
Liability for Outstanding Guarantees and Insurance	1,226.1	2,154.0
Liability Related to Undisbursed Loans, Guarantees and Insurance	279.1	286.4
Total Credit-Reform Allowance	3,478.3	5,365.3
Total Loan Loss Allowance	1,522.9	2,837.1
Total Allowance for Guarantees, Insurance and Undisbursed Loans	2,925.1	4,353.3
Total Allowance	\$4,448.0	\$7,190.4
Total Exposure	\$57,837.8	\$62,952.5
Percent Allowance to Exposure	7.7%	11.4%

5. Receivable from the Program Account

The Receivable from the Program Account of \$520.4 million in fiscal year 2006 and \$375.6 million in fiscal year 2005 represents subsidy related to the undisbursed principal balance of loans, guarantees and insurance and the amount of the upward subsidy re-estimate. The receivable is fully offset by the Liability Related to Undisbursed Loans and Guarantees and the Subsidy Payable to the Financing Account. These amounts are payable to and receivable from different Ex-Im Bank accounts at the U.S. Treasury and net to zero.

6. Nonaccrual of Interest

The weighted-average interest rate on Ex-Im Bank's loan and rescheduled claim portfolio at September 30, 2006, equaled 4.23 percent (6.50 percent on performing loans and rescheduled claims). The weighted-average interest rate on Ex-Im Bank's loan and rescheduled claim portfolio at September 30, 2005, equaled 3.44 percent (6.02 percent on performing loans and rescheduled claims). Interest income is recognized when collected on nonrescheduled claims.

Generally, the accrual of interest on loans and rescheduled claims is discontinued when the credit is delinquent for 90 days. Ex-Im Bank had a total of \$1,555.0 million and \$847.2 million of loans and rescheduled claims, respectively, in nonaccrual status at September 30, 2006, and \$2,958.5 million and \$1,594.8 million, respectively, at September 30, 2005. Had these credits been in accrual status, interest income would have been \$15.1 million higher during FY 2006 (amount is net of interest received of \$110.5 million) and \$130.6 million higher in FY 2005 (amount is net of interest received of \$66.1 million).

7. Statutory Limitations on Lending Authority

Under provisions of the Export-Import Bank Act, as amended in FY 2002, Ex-Im Bank's statutory authority currently is limited to \$100.0 billion of loans, guarantees and insurance outstanding at any one time. At September 30, 2006, and September 30, 2005, Ex-Im Bank's statutory authority used was as follows:

(in millions)	FY 2006	FY 2005
Outstanding Loans	\$5,954.9	\$8,354.2
Undisbursed Loans	89.0	102.3
Outstanding Claims	2,363.7	3,625.2
Guarantees	42,460.0	43,554.6
Insurance	6,970.2	7,316.2
Total Other Assets	\$57,837.8	\$62,952.5

Congress provides an appropriation to cover the subsidy cost, if any, of the transactions committed. Transactions can be committed only to the extent that appropriated funds are available to cover such costs. For fiscal years 2006 and 2005, Congress placed no limit on the total amount of loans, guarantees and insurance that could be committed in those years, provided that the statutory authority established by the Export-Import Bank Act was not exceeded.

During fiscal year 2006, Ex-Im Bank committed \$56.5 million for loans and \$12,094.0 million for guarantees and insurance, for a total of \$12,150.5 million, using \$190.8 million of the appropriation. During fiscal year 2005, Ex-Im Bank did not enter into commitments for loans but did commit \$13,936.2 million for guarantees and insurance using \$241.2 million of the appropriation.

8. Concentration of Risk

Ex-Im Bank support is available to U.S. businesses exporting to countries around the world. However, the Bank's portfolio is concentrated in some regions or industries more than others. The following table summarizes Ex-Im Bank's total exposure by geographic region and industry as of September 30, 2006.

Total Exposure:

(in millions)		
Region	Amount	Percent
Asia	\$17,271.7	29.9%
Latin America	14,423.4	24.9%
Europe/Canada	10,410.2	18.0%
Africa/Middle East	7,696.6	13.3%
All Other	8,035.9	13.9%
Total	\$57,837.8	100.0%

(in millions)		
Industry	Amount	Percent
Air Transportation	\$24,443.0	42.3%
Oil and Gas	7,361.6	12.7%
Power Projects	4,876.3	8.4%
Manufacturing	4,418.0	7.7%
All Other	16,738.9	28.9%
Total	\$57,837.8	100.0%

At September 30, 2006, Ex-Im Bank's five largest (public and private) obligors made up 19.2 percent of the credit portfolio.

(in millions)		
Obligor	Amount	Percent
Pemex	\$5,056.0	8.7%
Ryanair	1,738.0	3.0%
Korean Air Lines	1,723.2	3.0%
WestJet Airlines	1,303.3	2.3%
Ministry of Finance (India)	1,267.7	2.2%
All Other	46,749.6	80.8%
Total	\$57,837.8	100.0%

The largest exposures by program by country are as follows as of September 30, 2006:

Loans Outstanding:

(in millions)		
Country	Amount	Percent
Brazil	\$1,508.1	25.3%
Indonesia	1,430.3	24.0%
China	895.2	15.0%
Argentina	302.3	5.1%
All Other	1,819.0	30.6%
Total	\$5,954.9	100.0%

Subrogated Claims:

(in millions)		
Country	Amount	Percent
Indonesia	\$524.1	22.2%
Mexico	366.8	15.5%
Ukraine	142.6	6.0%
Argentina	134.4	5.7%
All Other	1,195.8	50.6%
Total	\$2,363.7	100.0%

Guarantees, Insurance and Undisbursed Loans:

(in millions)		
Country	Amount	Percent
Mexico	\$7,586.6	15.3%
China	3,136.1	6.3%
Republic of Korea	2,798.3	5.7%
India	2,425.6	4.9%
All Other	33,572.6	67.8%
Total	\$49,519.2	100.0%

9. Other Assets

(in millions)	FY 2006	FY 2005
Assets Acquired Through Claim Recovery	\$23.7	\$20.4
Commitment Fee Receivables	4.4	4.3
Other	1.9	1.7
Total Other Assets	\$30.0	\$26.4

Other assets are primarily equity securities that the Bank acquired through recovery actions on defaulted claims. The balance above reflects the market value of the securities. Commitment fees are charged on the undisbursed, unexpired balance of loans and certain guarantees. The Other category includes miscellaneous accounts receivable.

10. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources are included in other liabilities on the Balance Sheet as follows:

(in millions)	FY 2006	FY 2005
Accrued Unfunded Annual Leave	\$2.9	\$2.7

Ex-Im Bank's liability to employees for accrued annual leave, included in other liabilities, was \$2.9 million as of September 30, 2006, and \$2.7 million as of September 30, 2005. The liability will be paid from future administrative expense appropriations.

11. Debt

Ex-Im Bank's outstanding borrowings come from two sources: direct borrowing from the U.S. Treasury and the assumption of repayment obligations of defaulted guarantees under Ex-Im Bank's guarantee program via payment certificates.

Ex-Im Bank's total debt at September 30, 2006 and 2005, is as follows:

(in millions)	FY 2006	FY 2005
U.S. TREASURY DEBT		
Beginning Balance	\$5,848.3	\$7,237.2
New Borrowings	-	160.0
Repayments	(937.6)	(1,548.9)
Ending Balance	\$4,910.7	\$5,848.3
DEBT HELD BY THE PUBLIC		
Beginning Balance	\$297.2	\$448.4
New Borrowings	8.2	6.1
Repayments	(110.1)	(157.3)
Ending Balance	\$195.3	\$297.2
Total Debt	\$5,106.0	\$6,145.5

Ex-Im Bank had \$4,910.7 million of borrowings outstanding with the U.S. Treasury at September 30, 2006, and \$5,848.3 million of borrowings at September 30, 2005, with a weighted-average interest rate of 5.89 percent at September 30, 2006, and 5.80 percent at September 30, 2005.

U.S. Treasury borrowings are repaid primarily with the repayments of medium-term and long-term loans. To the extent repayments on the underlying loans, combined with commitment and exposure fees and interest earnings received on the loans, are not sufficient to repay the borrowings, appropriated funds are available to Ex-Im Bank through the re-estimation process for this purpose. Accordingly, U.S. Treasury borrowings do not have a set repayment schedule; however, the full amount of the borrowings is expected to be repaid by FY 2033.

Payment certificates are issued by Ex-Im Bank in exchange for the foreign importer's original note that was guaranteed by Ex-Im Bank on which Ex-Im Bank has paid a claim and carries the same repayment term and interest rate as the foreign importer's note. Payment certificates are backed by the full faith and credit of the U.S. government and are freely transferable.

Outstanding payment certificates at September 30, 2006, and September 30, 2005, were \$195.3 million and \$297.2 million, respectively. Maturities of payment certificates at September 30, 2006, follow:

(in millions)	
Fiscal Year	Amount
2007	\$65.7
2008	36.7
2009	22.1
2010	10.8
2011	9.8
Thereafter	50.2
Total	\$195.3

The weighted-average interest rate on Ex-Im Bank's outstanding payment certificates at September 30, 2006, was 5.23 percent and at September 30, 2005, was 5.67 percent.

12. Other Liabilities

(in millions)	2006	2005
Funds Held Pending Application	\$26.1	\$33.3
Administrative Expenses Payable	7.8	6.6
Accrued Interest on Payment Certificates	3.1	9.4
Total Other Liabilities	\$37.0	\$49.3

13. Leases

Ex-Im Bank's headquarters office space is leased from the General Services Administration (GSA) through the Public Buildings Fund. Lease expenses, included in administrative expenses, were \$4.9 million and \$4.7 million for fiscal years 2006 and 2005, respectively. The lease expires on December 31, 2009, at which time it will be renegotiated. Future lease payments through the expiry of the lease are expected to remain unchanged except for increases in operating costs, which are estimated to be \$25,000 per year.

14. Commitments and Contingencies

Pending Litigation

As of the end of September 30, 2006, Ex-Im Bank was named in several legal actions, virtually all of which involved claims under the guarantee and insurance programs. It is not possible to predict the eventual outcome of the various actions; however, it is management's opinion that these claims will not result in liabilities to such an extent they would materially affect the financial position or results of operations of Ex-Im Bank.

Project Finance

In project finance cases, Ex-Im Bank's assistance during the construction period is generally in the form of a direct credit or comprehensive guarantee to the private lender. At the end of the construction period, the borrower in some cases has the opportunity to convert the private guaranteed financing to an Ex-Im Bank direct loan. As of September 30, 2006, Ex-Im Bank had \$984.5 million of such contingent loan commitments outstanding.

15. Disclosures Related to the Statement of Net Cost

Ex-Im Bank's Statement of Net Cost lists the costs and revenues associated with each of the Bank's lines of business, namely the loan, guarantee and insurance programs. The intragovernmental and public costs and revenues associated with each program, and administrative expenses, are disclosed below. Ex-Im Bank does not allocate administrative expenses by program.

(in millions)	For the Year Ended September 30, 2006	For the Year Ended September 30, 2005
LOANS		
Intragovernmental Costs	\$316.9	\$380.4
Public Costs	(91.5)	(306.2)
Total Costs	225.4	74.2
Intragovernmental Revenue	(64.3)	(80.9)
Public Revenue	(827.2)	(751.4)
Total Revenue	(891.5)	(832.3)
Net Excess of Program Revenue Over Costs	(666.1)	(758.1)
GUARANTEES		
Public Costs	(763.0)	(726.2)
Intragovernmental Revenue	(84.7)	(100.5)
Public Revenue	(390.9)	(379.4)
Total Revenue	(475.6)	(479.9)
Net Excess of Program Revenue Over Costs	(1,238.6)	(1,206.1)
INSURANCE		
Public Costs	143.8	49.0
Public Revenue	(36.9)	(29.3)
Net Excess of Program Costs Over Revenue	106.9	19.7
ADMINISTRATIVE EXPENSES		
Public Costs	61.1	56.5
Intragovernmental Costs	11.5	11.9
Total Administrative Expenses	72.6	68.4
Distribution of Income	627.5	501.0
Net Excess of Program Revenue Over Costs	(\$1,097.7)	(\$1,375.1)

Intragovernmental costs include interest expense paid to the U.S. Treasury related to borrowings associated with the funding of credit-reform direct loans, and Administrative costs paid to other government agencies. Intragovernmental costs were \$328.4 million in FY 2006 and \$392.3 million in FY 2005. Intragovernmental revenues represent interest from the U.S. Treasury on cash balances in the credit-reform financing accounts. Intragovernmental revenue was \$149.0 million in FY 2006 and \$181.4 million in FY 2005.

Ex-Im Bank public costs represent costs that the Bank incurs to support the business programs. These costs are comprised primarily of the subsidy cost and provision for loss on the loan and guarantee portfolio, and administrative expenses paid to the public. Ex-Im Bank public revenue represents income items that are generated as a result of operating the loan, guarantee insurance programs. This revenue primarily relates to the fee and interest income on the outstanding credits. Ex-Im Bank net public costs totaled negative \$649.6 million in FY 2006 and negative \$926.9 million in FY 2005. Public revenue totaled \$1,255.0 million in FY 2006 and \$1,160.1 million in FY 2005. For both FY 2006 and 2005, the net costs were negative due to the downward re-estimate of program subsidy costs.

16. Disclosures Related to the Combined Statement of Budgetary Resources

Ex-Im Bank's Statement of Budgetary Resources discloses total budgetary resources available to the Bank and the status of such resources at September 30, 2006, and September 30, 2005. Activity impacting budget totals of the overall U.S. government budget is recorded in Ex-Im Bank's Statement of Budgetary Resource's budgetary accounts. Activity that does not impact budget totals is recorded in Ex-Im Bank's Statement of Budgetary Resource's nonbudgetary accounts. The Bank's resources in budgetary accounts totaled \$922.5 million for FY 2006 and \$1,350.4 million for FY 2005. The Bank's resources in nonbudgetary accounts totaled \$4,868.6 million for FY 2006 and \$4,735.3 million for FY 2005.

Adjustments to Beginning Balance of Budgetary Resources

Ex-Im Bank made no adjustments to the beginning budgetary resources during the years ended September 30, 2006, and September 30, 2005.

Apportionment Categories of Obligations Incurred

Ex-Im Bank funds are apportioned in Category B, which restricts the use of funds by program. The amount of Category B apportionments that were obligated in FY 2006 and FY 2005 totaled \$2,948.0 million and \$2,644.1 million, respectively.

Permanent Indefinite Appropriations

The FCRA requires an annual re-estimate of the subsidy cost allowance. In the event that there is an increase in subsidy required to cover defaults, there is permanent and indefinite authority available for this purpose. In FY 2006, the Bank received \$89.2 million of permanent indefinite appropriations as a result of the FY 2005 re-estimate. In FY 2005, the Bank received \$288.8 million of permanent indefinite appropriations as a result of the FY 2004 re-estimate.

Available Borrowing Authority and Terms of Borrowing

Ex-Im Bank in part relies on borrowings from the U.S. Treasury to help fund the Bank's loan program. U.S. Treasury borrowings are repaid primarily with the repayments of medium-term and long-term loans. To the extent repayments on the underlying loans, combined with commitment and exposure fees and interest earnings received on the loans, are not sufficient to repay the borrowings, permanent and indefinite appropriated funds are available to Ex-Im Bank through the re-estimation process for this purpose. Accordingly, U.S. Treasury borrowings do not have a set repayment schedule; however, the full amount of the borrowings is expected to be repaid by FY 2033.

For FY 2006, Ex-Im Bank did not have any new borrowings with the U.S. Treasury, while for FY 2005, Ex-Im Bank had new borrowings of \$160.0 million.

Unobligated Balances

Ex-Im Bank receives annual appropriations that are intended to support the Bank's loan, guarantee and insurance programs, as well as the Bank's administrative operations. The program appropriations received in any given year are available to be obligated for four years before they expire. Administrative appropriations are available for one fiscal year before they expire.

Unobligated balances at the end of FY 2006 and FY 2005 totaled \$2,843.1 million and \$3,441.6 million, respectively. Of the \$2,843.1 million, \$1.0 is available until September 30, 2007, \$43.6 million is available until September 30, 2008, \$99.0 million is available until September 30, 2009, and \$227.9 million is available until expended and may be used for tied aid. Of the remaining balance of \$2,471.6 million, \$2,293.9 million represents the amount in the financing account that is available to cover future defaults and \$177.7 million is unavailable for new obligations.

Differences between Statement of Budgetary Resources and Budget of U.S. Government

There are no differences between the budgetary resources listed on Ex-Im Bank's statement and the budgetary resources found in the budget of the U.S. government.

17. Disclosures Related to the Statement of Financing

The Statement of Financing reconciles the Bank's budgetary and financial accounting. The Statement of Financing illustrates the relationship between net obligations derived from Ex-Im Bank's budgetary accounts and the net cost of operations derived from Ex-Im Bank's proprietary accounts by identifying and explaining key differences between the two numbers.

Liabilities Not Covered by Budgetary Resources (Note 10) differs from Components Requiring or Generating Resources in Future Periods on the Statement of Financing primarily by the amount of annual leave recorded at year-end. The \$2.9 million, which represents a liability at year-end, will require resources in future periods.

18. Other Accompanying Information

Related-Party Transactions

The financial statements reflect the results of contractual agreements with the Private Export Funding Corporation (PEFCO). PEFCO, which is owned by a consortium of private-sector banks, industrial companies and financial services institutions, makes medium-term and long-term fixed-rate and variable-rate loans to foreign borrowers to purchase U.S.-made equipment when such loans are not available from traditional private-sector lenders on competitive terms. Ex-Im Bank's credit and guarantee agreement with PEFCO extends through December 31, 2020. Through its contractual agreements with PEFCO, Ex-Im Bank exercises a broad measure of supervision over PEFCO's major financial management decisions, including approval of both the terms of individual loan commitments and the terms of PEFCO's long-term debt issues, and is entitled to representation at all meetings of PEFCO's board of directors, advisory board and exporters' council.

PEFCO has agreements with Ex-Im Bank which provide that Ex-Im Bank will (1) guarantee the due and punctual payment of principal and interest on export loans made by PEFCO and (2) guarantee the due and punctual payment of interest on PEFCO's long-term secured-debt obligations when requested by PEFCO. Such guarantees, aggregating \$4,797.0 million at September 30, 2006 (\$4,135.9 million related to export loans and \$661.1 million related to secured-debt obligations) and \$4,936.1 million at September 30, 2005 (\$4,225.4 million related to export loans and \$710.7 million related to secured-debt obligations), are included by Ex-Im Bank in the total for guarantee, insurance and undisbursed loans, and the allowance related to these transactions is included in the Guarantee Loan Liability on the Balance Sheet. Ex-Im Bank received fees totaling \$32.1 million in FY 2006 (\$31.9 million related to export loans and \$0.2 million related to secured-debt obligations) and \$26.6 million in FY 2005 (\$26.4 million related to export loans and \$0.2 million related to secured-debt obligations) for the agreements, which are included in fee revenue included on the Statement of Net Costs.

Ex-Im Bank has significant transactions with the U.S. Treasury. The U.S. Treasury, although not exercising control over Ex-Im Bank, holds the capital stock of Ex-Im Bank, creating a related-party relationship between Ex-Im Bank and the U.S. Treasury.

Contributions to Employee Retirement Systems

Virtually all of Ex-Im Bank's employees are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS).

In FY 2006, Ex-Im Bank withheld 7.0 percent of CSRS employees' gross earnings. Ex-Im Bank's contribution was 7.0 percent of employees' gross earnings. This sum was transferred to the CSRS fund from which this employee group will receive retirement benefits.

For FERS, Ex-Im Bank withheld 0.8 percent of employees' gross earnings. Ex-Im Bank's contribution was 8.9 percent of employees' gross earnings. This sum was transferred to the FERS fund from which the employee group will receive retirement benefits. An additional 6.2 percent of gross earnings is withheld; that plus matching contributions by Ex-Im Bank are sent to the Social Security System from which the FERS employee group will receive Social Security benefits.

FERS and CSRS employees may elect to participate in the Thrift Savings Plan (TSP). CSRS and FERS employees may contribute up to \$15,000 of gross earnings. In addition, FERS employees receive an automatic 1 percent contribution from Ex-Im Bank. Amounts withheld for FERS employees are matched by Ex-Im Bank, up to 4 percent, for a maximum Ex-Im Bank contribution to the TSP of 5 percent.

Total Ex-Im Bank (employer) matching contributions to the Thrift Savings Plan, CSRS and FERS for all employees, included in administrative expenses, were approximately \$4.8 million and \$4.7 million for FY 2006 and FY 2005, respectively.

Although Ex-Im Bank funds a portion of pension benefits under the CSRS and FERS relating to its employees and makes the necessary payroll withholdings for them, it has no liability for future payments to employees under these programs and does not account for the assets of the CSRS and FERS, nor does it have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by the Office of Personnel Management (OPM) for the Retirement Systems and are not allocated to the individual employers. OPM also accounts for the health-insurance and life-insurance programs for current and retired civilian federal employees. Similar to the accounting treatment afforded the retirement programs, the actuarial data related to the health-insurance and life-insurance programs is maintained by OPM and is not available on an individual-employer basis.

Enclosure 4

**September 30, 2009,
Letter from
Bonneville Power
Administration**

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Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

FINANCE

SEP 30 2009

In reply refer to: FRS-2

Ms. Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
441 G Street NW – Suite 6814
Mail Stop 6K17V
Washington, DC 20548

Dear Ms. Payne:

Thank you for the invitation extended to the Bonneville Power Administration (BPA) to participate in the September 9, 2009, *Roundtable on Reporting by Federal Entities that Primarily Apply Standards Issued by the FASB*. As captured in the draft "Summary of September 9, 2009 Meeting" notes, several participants of this roundtable, BPA included, request that the Federal Accounting Standards Advisory Board (FASAB) should continue to allow certain federal entities to apply commercial accounting standards, without a requirement to disclose reconciliations between different standards, as such reconciliations would confuse readers and would not generally be useful.

BPA is a part of the U.S. Department of Energy (DOE) and supports its mission, but is also separate and distinct from DOE and other Power Marketing Administrations (PMAs). BPA's financial results are currently consolidated with DOE in a timely manner to enable DOE to achieve its reporting requirements under the Chief Financial Officers Act of 1990.

BPA is the Power Marketing Administration (PMA) that purchases, markets and transmits power for the Federal Columbia River Power System (FCRPS) that maintains its accounts in accordance with those prescribed by the Federal Energy Regulatory Commission and that is required under statute to obtain an annual "commercial-type audit." FCRPS statements reflect the operations of the FCRPS system as a whole, with combining entities (primarily the generating facilities of the U.S. Army Corps of Engineers and Bureau of Reclamation) reporting their individual results as part of their respective federal government reporting entity. The FCRPS statements are not submitted for the government-wide report as this would duplicate the results of operations included in the government-wide report as presented with the respective reporting entities.

As previously stated in my memo dated February 13, 2009, concerning the Hierarchy of GAAP for Federal Entities, BPA requests the FASAB Board to consider the statutory and legislative requirements placed upon federal entities operating as commercial-like enterprises subject to reporting requirements that are unique in the federal government.

Thank you again for your consideration of our comments and request. Our aim is to continue to deliver on our public responsibilities through a commercially successful business.

Sincerely

A handwritten signature in black ink, appearing to read "David J. Armstrong". The signature is fluid and cursive, with a long horizontal stroke extending from the end.

David J. Armstrong
Executive Vice President and Chief Financial Officer

Enclosure 5

**Invitation to the
September 9, 2009,
Roundtable**

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RSVP by August 10, 2009

July 27, 2009

Memorandum

To: Federal Preparers and Auditors

From: *Wendy M. Payne*
Wendy M. Payne
FASAB Executive Director

Subject: Roundtable on Reporting by Federal Entities that Primarily Apply Standards Issued by the Financial Accounting Standards Board

The Federal Accounting Standards Advisory Board (FASAB or the board) is very interested in receiving input regarding the application of standards issued by the Financial Accounting Standards Board (FASB). To that end, I will be hosting a roundtable on reporting by federal entities that primarily apply FASB standards. The roundtable will be held on **Wednesday, September 9, 2009**, from **9 AM to 12 PM** in Room 2N30 of the Government Accountability Office Building, 441 G Street, NW, Washington DC, 20548. I hope you will participate in the roundtable or designate someone from your office to represent you.

As discussed in more detail below, the use of different sources of generally accepted accounting principles (GAAP) has been a controversial and difficult issue to resolve for some time now. The discussion at the roundtable will form the basis for staff's recommendations and options discussed by the board at its October 21 – 22, 2009, board meeting.

Since October 1999, the American Institute of Certified Public Accountants (AICPA) has recognized FASAB as the standards-setting body for federal governmental entities; therefore, the pronouncements resulting from the FASAB process represent 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 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.

The board initiated a project on the appropriate source of GAAP for these entities in January 2006 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.

The primary drivers for undertaking this project were:

- To ensure that general purpose financial reports issued by federal entities are meeting the needs 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 occurring during the consolidation of the financial report of the U.S. Government as a result of federal entities using different sources of GAAP.

As reported in the August/September 2008 issue of *FASAB News*, the Appropriate Source of GAAP¹ project was elevated to the number one priority by the board at its August 2008 agenda-setting session. At the October 2008 meeting, a proposed project plan was provided to the board that contained the following five objectives for the project:

- a. Address whether it is appropriate for those federal entities currently applying standards issued by the FASB to continue that practice (i.e., establish whether GAAP for a federal entity permits this practice and it is therefore generally accepted);
- b. Determine whether a newly created federal entity may apply FASB standards and, if so, under what conditions (i.e., establish criteria for new entities);
- c. Establish requirements necessary to ensure that the stand alone federal financial reports prepared pursuant to FASB standards meet federal financial reporting objectives;
- d. Provide guidance to address the case of a federal entity consolidating information from an entity (or entities) applying FASB standards with its own FASAB-based information [Note that this does not extend to providing guidance for eliminations. If needed, this can be addressed through implementation guidance or informal assistance.]; and,
- e. Consider any issues arising from possible transition to International Financial Reporting Standards (IFRS) by U.S. non-listed reporting entities (private companies and non-profits).

The first two objectives (a and b) were temporarily addressed in Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial*

¹ The "appropriate source of GAAP" is a shorthand reference. The AICPA established that FASAB is the source of GAAP for federal government entities (as defined in SFFAC 2).

Accounting Standards Board. The primary purpose of SFFAS 34, which is expected to be issued as final on July 28, 2009, is to incorporate the hierarchy for selecting the principles used in the preparation of general purpose financial reports by federal reporting entities set forth in the AICPA Statement on Auditing Standards (SAS) No. 91, *Federal GAAP Hierarchy*, into FASAB's authoritative literature. In addition, to avoid any sudden or dramatic changes in practice for federal entities, SFFAS 34 also explicitly permits those federal entities currently applying financial accounting and reporting standards issued by FASB to continue to do so while clarifying that a federal entity that is preparing GAAP-based general purpose financial reports for the first time is required to implement FASAB standards unless, in consultation with its auditors and bodies with oversight authority, the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards.

It is important to note that the board has emphasized that the GAAP exception for federal entities that currently apply financial accounting and reporting standards issued by FASB is temporary. The board is interested in determining whether this type of reporting is meeting federal financial reporting objectives as well as user needs.

To help participants prepare for the roundtable, I have attached an agenda with some administrative information, a brief background of the project, and a list of questions to consider. Also, you may review a detailed history of the Appropriate Source of GAAP project on our website at <http://www.fasab.gov/projectsqaap.html>.

In addition, all confirmed participants in the roundtable will be asked to either update the "Request for Cost / Burden Information Survey" that was completed in Spring 2007, if applicable, or complete one if not previously submitted for your agency (completion of the survey is not required). This survey was developed and circulated by staff to gather information on the expected benefits and perceived costs and burdens associated with various approaches to resolving any concerns regarding the source of GAAP. The results of these surveys will be provided to the recipients for review at least 10 days prior to the roundtable to enhance discussions.

To facilitate your admission into the GAO building, **please RSVP to ranagani@fasab.gov by August 10, 2009**, and include the name(s) of those who will be attending the roundtable. You will receive a reply confirming your attendance. Due to space constraints, please limit the number of people attending to two per reporting entity.

If you have any questions, please contact the project manager, Julia Ranagan, by telephone at 202-512-7377 or by email at ranagani@fasab.gov. Thank you in advance for your interest and active participation.

Attachments:

- 1 – Agenda
- 2 – Administrative Information
- 3 – Project Background
- 4 – Examples of Federal Entities that Apply FASB Standards

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**Federal Accounting Standards Advisory Board
Roundtable on Reporting by Federal Entities that
Primarily Apply Standards Issued by FASB**

**Wednesday, September 9, 2009
441 G St NW – Room 2N30**

Agenda

Objective

The purpose of the roundtable will be to advance a meaningful dialogue on reporting by federal entities that primarily apply standards issued by the Financial Accounting Standards Board (FASB) so that future board deliberations will be comprehensively informed.

**OBJECTIVES OF FEDERAL
FINANCIAL REPORTING**

Budgetary Integrity – 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.

Operating Performance – Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity’s assets and liabilities.

Stewardship – 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.

Systems and Controls – Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that 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; assets are properly safeguarded to deter fraud, waste, and abuse; and performance measurement information is adequately supported.

(Source: SFFAC 1)

9:00 – 9:05 Introductions and Overview of Project

9:05 – 10:30 Group Discussion

General Views on the Role of the Objectives of Federal Financial Reporting and User Needs

1. Statement of Federal Financial Accounting Concepts (SFFAC) 1 identifies the primary users of federal financial statements 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. The perceived needs of these four primary federal financial statement users were used to develop the four objectives of federal financial reporting (see box inset left). What critical users or user needs do you believe are not specifically included in SFFAC 1?
2. Do you believe the four objectives of federal financial reporting (see box inset left) are appropriate for your reporting entity? Why or why not?
3. Should certain federal government activities have financial reporting objectives that differ from the rest of the federal government? Why or why not?

10:30 – 10:45 Break

10:45 – 11:45 Group Discussion

General Views on Current Reporting and Impact of Change

1. Do you believe your current reporting model meets the needs of your reporting entity's users discussed above? Why or why not?
2. Do you believe there are aspects of the federal reporting model (see box below) that could be incorporated into your entity's reporting model that would continue to meet your reporting entity's user needs while better achieving the objectives of federal financial reporting? Why or why not?
3. What are the primary barriers to providing additional information to better achieve the objectives of federal financial reporting (e.g., cost, lack of personnel resources, resistance to change)?

11:45 – 12:00 Wrap-Up

Select Aspects of Federal Reporting Model

- Display
 - statement of net cost
 - statement of budgetary resources
 - statement of changes in operation
 - statement of custodial activities
- Budgetary accounting and reporting
- Cost accounting and reporting
- Management Discussion & Analysis
- Deferred maintenance reporting
- Stewardship investment reporting
- Imputed financing and costs

**Federal Accounting Standards Advisory Board
Roundtable on Reporting by Federal Entities that
Primarily Apply Standards Issued by FASB**

Wednesday, September 9, 2009

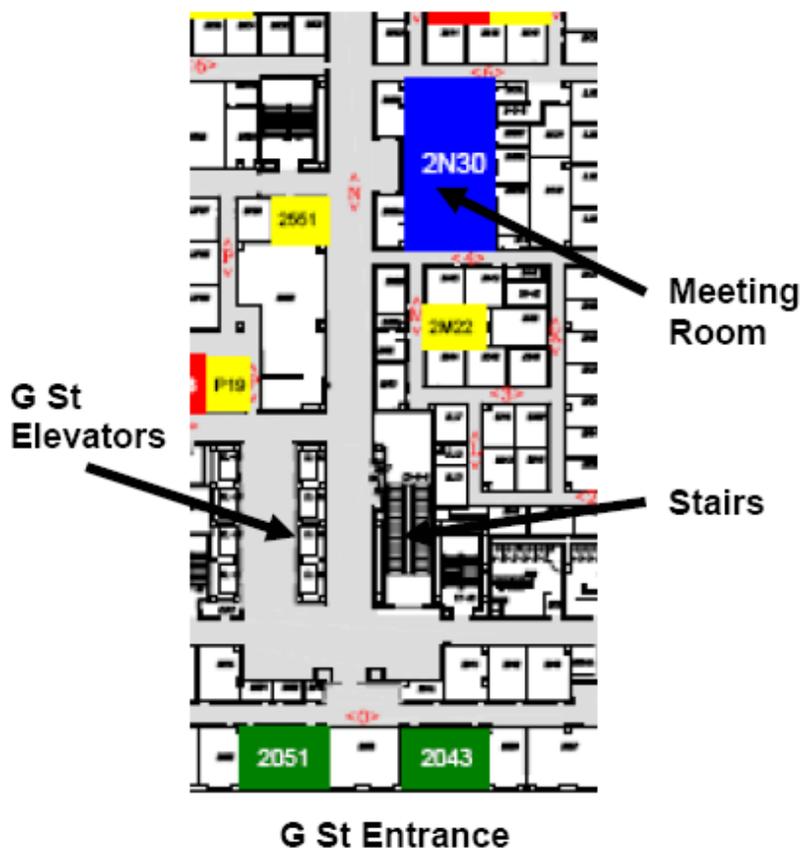
Administrative Information

Roundtable Venue

Government Accountability Office (GAO)
441 G St NW
Washington DC 20548

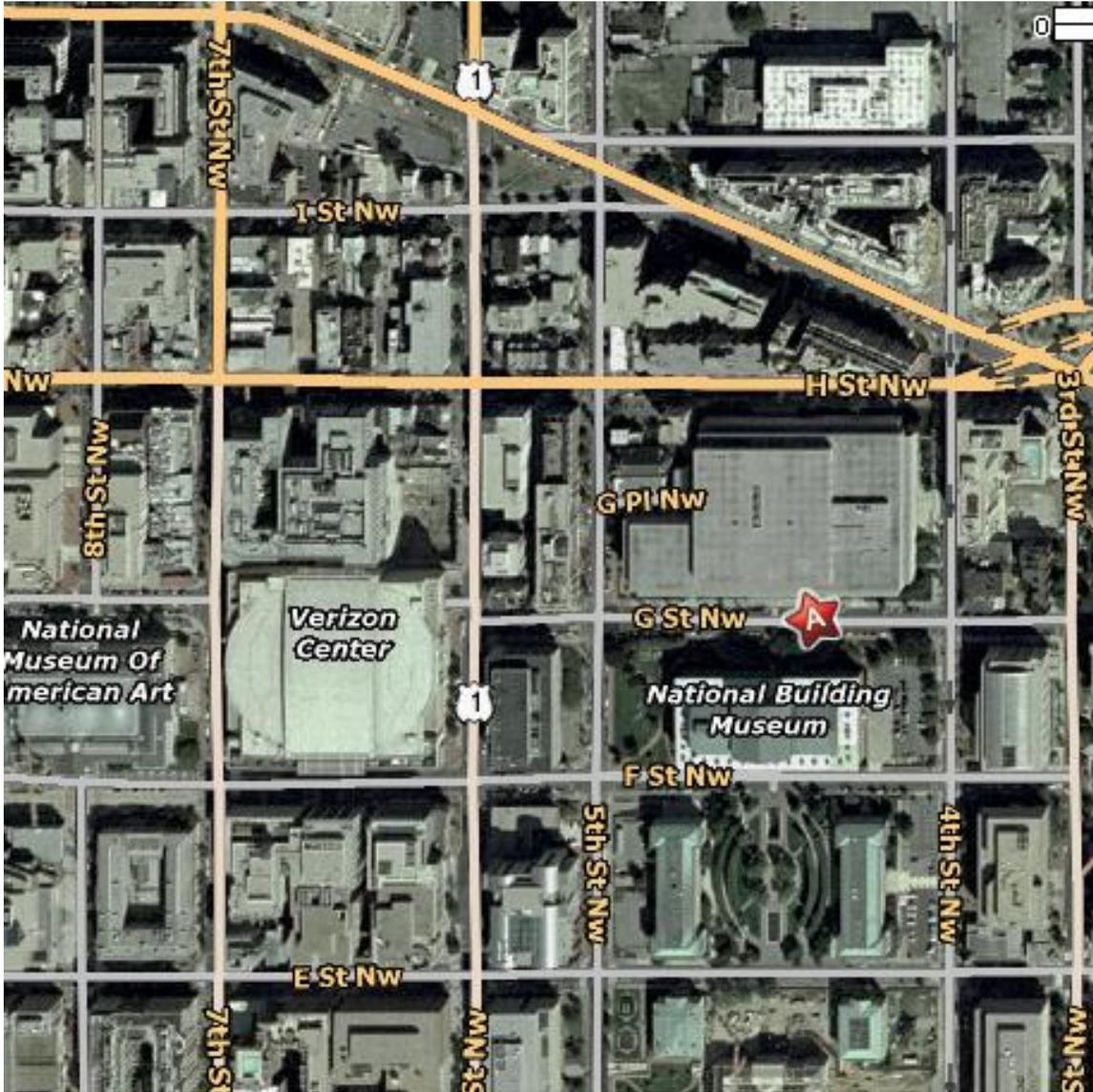
Room 2N30 (2nd Floor)

Excerpt from floor plan of the 2nd Floor



General Information

The meeting will begin promptly at 9:00 a.m. and conclude at 12:00 p.m. Participants are asked to arrive prior to 8:45 a.m. to process through GAO security. All visitors must enter through the G Street entrance (see star labeled “A” in map below). The GAO building is located near the Judiciary Square or Gallery Place metro stops.



Federal Accounting Standards Advisory Board Project on Reporting by Federal Entities that Primarily Apply Standards Issued by FASB

Background on the Issue

What is the issue?

On October 19, 1999, the Council of the American Institute of Certified Public Accountants (AICPA) adopted an amendment to Rule 203 of the AICPA's Code of Professional Conduct. This amendment recognized accounting standards recommended by the FASAB as GAAP for federal financial reporting entities. Prior to Rule 203 designation, FASAB's guidance was considered to be an other comprehensive basis of accounting (OCBOA).

However, despite FASAB's designation as the standard-setting body for the federal government, some federal entities have continued to follow GAAP for non-governmental entities promulgated by the private sector Financial Accounting Standards Board (FASB GAAP). For example, federal government corporations,² the US Postal Service, selected component entities of the Department of Treasury, and some smaller entities have historically applied FASB GAAP.

The AICPA has requested that FASAB clarify which entities from among the diverse entities currently applying FASB GAAP should be required to convert to FASAB standards in order to receive a GAAP opinion. Generally, the AICPA's objective is to ensure that like entities follow like accounting standards. The use of different sources of GAAP by some federal government corporations and other federal entities has resulted in inconsistent reporting and consolidation issues at some of the agencies. Furthermore, one of the criterion for Rule 203 designation is that "The body should have a unique constituency not served by another existing Rule 203 standard-setting body. Its standards should be generally accepted by its constituencies." The AICPA has suggested that FASAB resolve this issue by determining which standards federal entities should apply.

In addition to the AICPA's concerns, in 2004, then US Department of the Treasury Acting Inspector General requested that FASAB consider "requiring federal GAAP for the general purpose financial statements of federal entities, unless there is a statutory or regulatory requirement to report on a different basis of accounting."³

Furthermore, Department of the Treasury representatives have asked that the board address serious 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.

² In late 1999, there were approximately two-dozen federal government corporations. Selected examples of federal government corporations are Commodity Credit Corporation, Corporation for National and Community Service, Government National Mortgage Association, and Tennessee Valley Authority.

³ Letter from Dennis S. Schindel, Acting Inspector General for the Department of Treasury, to Wendy Comes [Payne], dated April 20, 2004.

What are some of the reasons given by entities for continuing to follow FASB GAAP?

- The exemption provided by FASAB in the January – March 2000 issue of FASAB news (see Figure 1 on page 12). For example, Note 2, Significant Accounting Policies, in the Department of the Treasury’s Office of Thrift Supervision’s (OTS) 2004 financial statements states:

OTS has historically prepared its financial statements in accordance with generally accepted accounting principles based upon accounting standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards setting body. In October 1999, the American Institute of Certified Public Accountants designated the Federal Accounting Standards Advisory Board (FASAB) as the standards-setting body for financial statements of federal government entities with respect to the establishment of generally accepted accounting principles. FASAB has indicated, however, that financial statements prepared based upon accounting standards published by the FASB may also be regarded as being in accordance with generally accepted accounting principles for those federal entities such as OTS that have issued financial statements based upon FASB accounting standards in the past. Accordingly, consistent with historical reporting, OTS financial statements are presented in accordance with accounting standards published by FASB.

- Government corporations have long referenced the Government Corporation Control Act (GCCA) as the basis for continuing to follow FASB GAAP for their financial statements, although the GCCA, as amended, does not explicitly require FASB GAAP.
- A change in the reporting model and significant accounting principles would result in a loss of historical and comparative reporting by the entity (see excerpt from OTS’ Note 2 above).
- Some of these entities are awaiting further guidance from FASAB before they make the switch to FASAB GAAP in case FASAB decides to recommend accounting standards for federal corporations that differ from either FASB standards or existing FASAB standards. For example, in the Corporation for National and Community Service’s (CNCS) fiscal year 2000 Management Letter, the private accounting firm hired by the Office of Inspector General (OIG) made the following recommendation:

Consider the recommendations made in a separate report issued to the Corporation on the applicability and advisability of reporting the Corporation’s financial operations in compliance with the requirements of OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*.⁴ Federal entities, like the Corporation, which had been reporting under Financial Accounting Standards Board (FASB) accounting standards prior to Federal Accounting Standards Advisory Board (FASAB) recognition by the AICPA as an official standard setting body for federal agencies, have been permitted to continue to report under the FASB standards until the FASAB issues an official ruling on this matter. However, since the Corporation receives most of its funding from annual appropriations from Congress, reporting under the requirements of OMB Bulletin No. 97-01, as amended, may be a preferable and more meaningful reporting method for the users of the financial statements. (OIG Audit Report Number 01-02)

⁴ [Note: OMB Bulletin 97-01 is now incorporated into OMB Circular A-136.]

CNCS wrote the following in response:

As evidenced by the Corporation's financial statements and footnotes for fiscal 2000 and prior, the Corporation has integrated some of the requirements of OMB 97-01 where it was deemed meaningful to the reader of the financial statements (e.g., footnote disclosures by fund for certain areas such as Fund Balance with Treasury and Net Positions).

FASAB has recently been designated as the standard setting body for GAAP for federal entities. The Corporation does not plan to materially alter its financial statement presentation until FASAB and OMB establish official requirements for reporting by federal corporations, which may differ from current 97-01 reporting. However, the Corporation will continue to integrate 97-01 requirements if deemed to enhance reader understanding of the financial statements.

CNCS has continued to make enhancements to its financial statements, including the addition of a statement of budgetary resources, as required under the President's February 27, 2004, Executive Order on National and Community Service Programs. The OIG has not reissued a finding related to the format of CNCS' financial statements.

Existing Guidance on the Issue

What has FASAB had to say about the practice of continuing to follow FASB GAAP?

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 (see excerpt from the newsletter in Figure 1 on the following page). 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 various sections of SFFAC 2, *Entity and Display*; Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*; SFFAS 8, *Supplementary Stewardship Reporting*; and, SFFAS 24, *Selected Standards for the Consolidated Financial Report of the United States Government*.

SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, expected to be issued as final on July 28, 2009, incorporated this newsletter provision into the standards. However, the board has emphasized that the GAAP exception for federal entities that currently apply financial accounting and reporting standards issued by FASB is temporary. The board is interested in determining whether this type of reporting is meeting federal financial reporting objectives as well as user needs.

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.

Figure 1

What guidance has OMB provided on applicable accounting standards for the federal government?

OMB Circular A-134 (1993)

OMB Circular A-134, *Financial Accounting Principles and Standards*,⁵ dated May 20, 1993, establishes the policies and procedures for approving and publishing financial accounting principles and standards. However, the provisions of Circular A-134 only apply to Executive Branch departments and agencies; corporations that follow FASB GAAP and the legislative and judicial branches were purposely excluded from the scope of the Circular.

- 4.a. Executive agency ("agency") means any executive branch department, independent commission, board, bureau, office, agency, or other establishment of the Federal Government, including independent regulatory commissions and

⁵ Available online at <http://www.whitehouse.gov/omb/circulars/a134/a134.html>.

boards. **It does not include federally-owned or controlled corporations that are preparing financial statements in accordance with generally accepted accounting principles promulgated by the Financial Accounting Standards Board, or the legislative or judicial branches of the Federal Government.**
[emphasis added]

The Circular has not been updated since FASAB was designated as the GAAP standard-setter for the federal government (see Appendix D for the text of OMB Circular A-134). In response to a FASAB staff request about the status of the circular, OMB staff confirmed that it has not been superseded or revised (as of January 31, 2007). It is available on the OMB website at http://www.whitehouse.gov/omb/circulars_a134/.

Memorandum 96-05 (1995)

On December 8, 1995, then OMB Director Alice Rivlin issued Memorandum 96-05, titled “Government Corporations,” which stated:

“A government corporation should always be subject to Federal accounting standards. (If a corporation is in a transitional stage pending privatization, it can elect to **also** use standards of the Financial Accounting Standards Board.)”⁶ [emphasis added]

This memorandum is available on the OMB website at <http://www.whitehouse.gov/omb/assets/omb/memoranda/m96-05.pdf>.

OMB Circular A-136 (2009)

OMB Circular A-136, *Financial Reporting Requirements*,⁷ establishes a central point of reference for all federal financial reporting guidance for executive branch departments, agencies, and entities required to submit audited financial statements, interim financial statements, and Performance and Accountability Reports (PAR) under the Chief Financial Officers Act of 1990 (“CFO Act”, PL No. 101 – 576), the Accountability of Tax Dollars Act of 2002 (“ATDA”, PL No. 107 – 289), and Annual Management Reports under the Government Corporations Control Act (31 U.S.C. § 9101 et seq.).

Circular A-136 contains the following five major sections:

- I. General Information;
- II. Performance and Accountability Report;
- III. Summary of Performance and Financial Information;
- IV. Quarterly and Interim Financial Statements; and,
- V. Government-wide Financial Report.

Circular A-136 states, “Only Section I.5 Submission Deadlines applies to Government Corporations’ Annual Management Reports under the Government Corporations Control Act, except for any corporation that is required to register a class of its equity securities with the Securities and Exchange Commission (SEC). Government Corporations are strongly encouraged to prepare all sections of the PAR.” See Table 1 below for a summary of requirements.

⁶ M-96-05, Section IX.F.1.

⁷ Revision dated June 10, 2009; available online at http://www.whitehouse.gov/omb/financial_offm_circulars/.

Table 1

Entity	Submission Type	Applicable Sections in this Circular	Exceptions
CFO Act Agency	PAR, Interim Financial Statements	All	None
ATDA entity	PAR, Interim Financial Statements	I, II, III, IV, (V if listed in Appendix A)	None
Government Corporation	Annual Management Report	I.5 (accelerated due dates only), V (if listed in Appendix A) I, II, III, IV, V are strongly encouraged.	Corporations registering equity securities with SEC exempt from I.5 accelerated due dates.

The provisions of Part V of this Circular apply to each Executive Branch entity listed in Appendix A. Components of Executive Branch Agencies required by law to issue financial statements prepared in accordance with accounting standards other than those promulgated by the Federal Accounting Standards Advisory Board (FASAB) shall continue to comply with applicable standards. When the reporting entities, of which these components are a part, issue consolidated or consolidating statements that include such components, Generally Accepted Accounting Principles (GAAP) for Federal entities shall be applied to these components.

The following excerpt from Section I.5 of Circular A-136 is the section of the circular that is noted as applicable to all federal government corporations:

PARs, AFRs, and Annual Management Reports. Agencies and Government Corporations shall submit their Performance and Accountability Reports (PARs), Agency Financial Reports (AFRs), or Annual Management Reports (as described in the Government Corporations Control Act) to OMB and the Congress no later than 45 calendar days after the end of the fiscal year. (For those agencies or corporations with a September 30 fiscal year end, the due date is November 16.) This Circular makes this 45-day deadline a permanent annual requirement for all executive agencies and Government Corporations regardless of fiscal year. Agencies and Government Corporations shall submit a draft of the PAR, AFR, or Annual Management Reports to OMB’s Office of Federal Financial Management (OFFM) and the appropriate Resource Management Office (RMO) ten working days (November 2) before issuing the final PAR, AFR, or Annual Management Report. This draft should include all sections of the PAR, AFR, or Annual Management Report except the audit report if it is not available at that time. Agencies should provide the draft audit report to OMB as soon as it is available. The final report should be posted to the agency's website by November 16. If it is not compliant with Section 508 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794d) at this time, the agency must post the 508 compliant version of the final report to their website no later than November 30. The website location for the final report must be clearly identified on the homepage.

Government Corporations that present their financial statements in accordance with the Financial Accounting Standards Board (FASB) are also required to report information to the Treasury to support government-wide financial statements as specified in Section V of this Circular.

Any Government Corporation required to register a class of its equity securities with the SEC is excluded from the OMB accelerated due dates.

The following excerpt from Section V of OMB Circular A-136 is the section that is noted as applicable to entities listed in Appendix A of the circular:

The FR is prepared from Federal entities audited financial statements and trial balances in accordance with the U.S. GAAP promulgated by the FASAB. Entities required by law or policy to prepare and issue financial statements in accordance with accounting standards other than those recommended by FASAB should continue to do so. These reporting entities must identify, to Treasury, 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 to the FR, the standards promulgated by FASAB should be applied to those material items and subsequently sent to Treasury for consolidation into the FR. The reporting entities also need to provide, to Treasury, any additional disclosures required by FASAB, and Treasury's TFM, that would not be required by other standards.

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Examples of Federal Entities that Apply FASB Standards

The following table contains examples of federal entities that apply FASB standards with a brief description of the entity and some of its characteristics. This list is not all-inclusive but attempts to capture all of the significant entities as well as other known examples. A list of areas where differences arise is included beneath the table.

The information contained in this appendix has been included to assist you in preparing for the roundtable discussion by providing a broad description of the general nature of the agencies that apply FASB standards. The information contained in this appendix is not intended to imply a future outcome of the board’s project on reporting by federal entities that primarily apply standards issued by the FASB and should not drive a current change in practice.

Examples of Federal Entities that Apply FASB Standards

Name of Entity	Description/Characteristics
<ul style="list-style-type: none"> ● Farm Credit System Insurance Corporation (FCSIC)⁸ <ul style="list-style-type: none"> – Insure the timely payment of principal and interest on System notes, bonds, and other obligations issued to investors. 	<ul style="list-style-type: none"> ● <i>Its primary activities are similar to those of a private business enterprise</i> ● <i>Engages primarily in business-type activities with parties outside of the government</i> ● <i>Is intended to be self-sustaining</i> ● <i>Does not receive annual appropriations</i> ● <i>Is required to handle FASB-based receiverships</i> ● <i>Primary stakeholders are more familiar with FASB reporting (e.g., financial institutions)</i> ● <i>Primary business function is the provision of insurance</i>
<ul style="list-style-type: none"> ● Federal Deposit Insurance Corporation (FDIC) <ul style="list-style-type: none"> – Preserve and promote 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. 	<ul style="list-style-type: none"> ● <i>Exempt from the Federal Credit Reform Act (P.L. 101-508 § 506, 2 U.S.C. § 661e)</i> ● <i>Its primary activities are similar to those of a private business enterprise</i> ● <i>Engages primarily in business-type activities with parties outside of the government</i> ● <i>Is intended to be self-sustaining</i> ● <i>Does not receive annual appropriations</i> ● <i>Is required to handle FASB-based receiverships</i> ● <i>Primary stakeholders are more familiar with FASB reporting</i> ● <i>Primary business function is the provision of insurance</i>

⁸ Entity names that appear in **bold** are considered to be significant entities for the consolidated financial report of the U.S. Government, per Treasury Financial Manual, Part 2, Chapter 4700. These entities are required to verify and submit a closing package to the U.S. Department of the Treasury and to provide CFO representations for federal intragovernmental activity and balances.

Attachment 4 – Examples of Federal Entities that Apply FASB Standards

Name of Entity	Description/Characteristics
<ul style="list-style-type: none"> ● National Credit Union Administration (NCUA) <ul style="list-style-type: none"> – Charter and supervise federal credit unions throughout the United States and its territories. – Insure member share deposits in all federal credit unions and in qualifying state credit unions that request insurance. 	<ul style="list-style-type: none"> ● <i>Exempt from the Federal Credit Reform Act (P.L. 101-508 § 506, 2 U.S.C. § 661e)</i> ● <i>Its primary activities are similar to those of a private business enterprise</i> ● <i>Engages both in business-type and regulatory-type activities with parties outside of the government</i> ● <i>Is intended to be self-sustaining</i> ● <i>Does not receive annual appropriations with one immaterial exception</i> ● <i>Primary stakeholders are more familiar with FASB reporting (e.g., financial institutions)</i> ● <i>Primary business functions are the provision of insurance to and oversight of national credit unions</i>
<ul style="list-style-type: none"> ● Pension Benefit Guaranty Corporation (PBGC) <ul style="list-style-type: none"> – Insure the pension benefits, within statutory limits, of workers and retirees in private defined benefit pension plans. – Safeguard the federal pension insurance system for the benefit of participants, plan sponsors, and other stakeholders. 	<ul style="list-style-type: none"> ● <i>Exempt from the Federal Credit Reform Act (P.L. 101-508 § 506, 2 U.S.C. § 661e)</i> ● <i>Its primary activities are similar to those of a private business enterprise</i> ● <i>Engages primarily in business-type activities with parties outside of the government</i> ● <i>Is intended to be self-sustaining</i> ● <i>Does not receive annual appropriations</i> ● <i>Primary stakeholders are more familiar with FASB reporting</i> ● <i>Primary business function is the provision of insurance</i>
<ul style="list-style-type: none"> ● Smithsonian Institution (SI) <ul style="list-style-type: none"> – Operate as a museum and an education and research complex consisting of 17 museums and galleries, the National Zoological Park, and other research facilities. 	<ul style="list-style-type: none"> ● <i>Primary source of revenue is federal appropriations (over 70% in 2006 and 2007); remainder of revenue is received in contributions and income from its business activities, which include Smithsonian magazines and other publications, a mail-order catalog, museum shops and food services,</i> ● <i>Operates similar to a non-profit organization</i> ● <i>Some of the stakeholders are more familiar with FASB reporting (e.g., bondholders and donors)</i> ● <i>Primary business function is the operation of a museum and an education and research complex</i>
<ul style="list-style-type: none"> ● Tennessee Valley Authority (TVA) <ul style="list-style-type: none"> – 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. – Operate one of the largest electric power systems in the U.S. 	<ul style="list-style-type: none"> ● <i>Mandated to follow the Federal Energy Regulatory Commission’s Uniform System of Accounts</i> ● <i>Required to file with the Securities and Exchange Commission</i> ● <i>Exempt from the Federal Credit Reform Act (P.L. 101-508 § 506, 2 U.S.C. § 661e)</i> ● <i>Its primary activities are similar to those of a private business enterprise</i> ● <i>Engages primarily in business-type activities with parties outside of the government</i> ● <i>Intended to be self-sustaining</i> ● <i>Does not receive annual appropriations</i> ● <i>Issues a variety of debt securities</i>

Attachment 4 – Examples of Federal Entities that Apply FASB Standards

Name of Entity	Description/Characteristics
	<ul style="list-style-type: none"> ● <i>Primary stakeholders are more familiar with FASB reporting (e.g., bondholders and customers)</i> ● <i>Primary business function is the provision of wholesale electric power</i>
<ul style="list-style-type: none"> ● United States Postal Service (USPS) <ul style="list-style-type: none"> – Provide mail processing and delivery services to individuals and businesses within the United States 	<ul style="list-style-type: none"> ● <i>Its primary activities are similar to those of a private business enterprise</i> ● <i>Engages primarily in business-type activities with parties outside of the government</i> ● <i>Is intended to be self-sustaining</i> ● <i>Does not receive annual appropriations with one immaterial exception</i> ● <i>Primary stakeholders are more familiar with FASB reporting (e.g., customers)</i> ● <i>Primary business function is mail processing and delivery services</i>
<ul style="list-style-type: none"> ● Appalachian Regional Commission (ARC)⁹ <ul style="list-style-type: none"> – Be a strategic partner and advocate for sustainable community and economic development in Appalachia. 	<ul style="list-style-type: none"> ● <i>Primary source of revenue is federal appropriations</i> ● <i>Is not intended to be self-sustaining</i> ● <i>Primary business function is the provision of area development grants</i>
<ul style="list-style-type: none"> ● Corporation for National and Community Service (CNCS) <ul style="list-style-type: none"> – Improve lives, strengthen communities, and foster civic engagement through service and volunteering. 	<ul style="list-style-type: none"> ● <i>Primary source of revenue is federal appropriations</i> ● <i>Is not intended to be self-sustaining</i> ● <i>Primary business function is the provision of grants and member service awards</i>
<ul style="list-style-type: none"> ● Department of the Treasury Exchange Stabilization Fund <ul style="list-style-type: none"> – Stabilize the exchange value of the dollar. 	<ul style="list-style-type: none"> ● <i>Its primary activities are similar to those of a private business enterprise</i> ● <i>Engages primarily in business-type activities with parties outside of the government</i> ● <i>Intended to be self-sustaining</i> ● <i>Does not receive annual appropriations</i> ● <i>Primary stakeholders are more familiar with FASB reporting (e.g., bondholders and customers)</i> ● <i>Primary business function is to use its capital to deal in gold and foreign exchange in order to stabilize the exchange value of the dollar</i>
<ul style="list-style-type: none"> ● Department of the Treasury Community Development Financial Institutions Fund (CDFI) <ul style="list-style-type: none"> – Expand the capacity of financial 	<ul style="list-style-type: none"> ● <i>Primary source of revenue is federal appropriations</i> ● <i>Is not intended to be self-sustaining</i> ● <i>Primary business function is the provision of grants and loans</i>

⁹ Entity names that do not appear in **bold** are not considered to be significant entities for the consolidated financial report of the U.S. Government, per Treasury Financial Manual, Part 2, Chapter 4700. These entities are not required to verify and submit a closing package to the U.S. Department of the Treasury or provide CFO representations for federal intragovernmental activity and balances, but would be included in the closing package of a larger federal entity (e.g., the U.S. Department of the Treasury).

Attachment 4 – Examples of Federal Entities that Apply FASB Standards

Name of Entity	Description/Characteristics
<p>institutions to provide credit, capital, and financial services to underserved populations and communities in the U.S.</p>	
<ul style="list-style-type: none"> ● Department of the Treasury Federal Financing Bank <ul style="list-style-type: none"> – Reduce the costs of federal and federally assisted borrowing, coordinate such borrowings with the Government’s overall fiscal policy, and ensure that such borrowings are done in ways that least disrupt private markets. 	<ul style="list-style-type: none"> ● <i>Its primary activities are similar to those of a private business enterprise</i> ● <i>Engages primarily in business-type activities with parties inside of the government</i> ● <i>Intended to be self-sustaining</i> ● <i>Does not receive annual appropriations</i> ● <i>Primary business function is the administration of loans</i>
<ul style="list-style-type: none"> ● Department of the Treasury Bureau of Engraving and Printing <ul style="list-style-type: none"> – Design and manufacture high quality security documents that deter counterfeiting and meet customer requirements for quality, quantity and performance. The BEP designs, prints, and furnishes a large variety of security documents, including Federal Reserve Notes, identification cards, naturalization certificates, and other special security documents. 	<ul style="list-style-type: none"> ● <i>Its primary activities are similar to those of a private business enterprise</i> ● <i>Engages primarily in business-type activities with parties outside of the government</i> ● <i>Intended to be self-sustaining</i> ● <i>Does not receive annual appropriations</i> ● <i>Primary business function is the design and production of U.S. currency</i>
<ul style="list-style-type: none"> ● Department of the Treasury Office of Thrift Supervision <ul style="list-style-type: none"> – Supervise savings associations and their holding companies in order to maintain their safety and soundness and compliance with consumer laws, and to encourage a competitive industry that meets America’s financial services needs. 	<ul style="list-style-type: none"> ● <i>Its primary activities are similar to those of a private business enterprise</i> ● <i>Engages primarily in business-type activities with parties outside of the government</i> ● <i>Intended to be self-sustaining</i> ● <i>Does not receive annual appropriations</i> ● <i>Primary business function is to regulate all federal and many state-chartered thrift institutions, which include savings banks and savings and loan associations</i>
<ul style="list-style-type: none"> ● Department of Housing and Urban Development Government National Mortgage Association (Ginnie Mae) ● Help to expand the supply of affordable housing in the U.S. by providing a government-guaranteed vehicle—the mortgage-backed security (MBS)—to link capital markets to housing markets. The Ginnie Mae guarantee of the MBS enables mortgage lenders to obtain a better price for their mortgage loans in the secondary market. The lenders can then use the proceeds to make new mortgage loans. 	<ul style="list-style-type: none"> ● <i>Its primary activities are similar to those of a private business enterprise</i> ● <i>Engages primarily in business-type activities with parties outside of the government</i> ● <i>Intended to be self-sustaining</i> ● <i>Does not receive annual appropriations</i> ● <i>Primary business function is to guarantee investors the timely payment of principal and interest on securities backed by federally insured or guaranteed loans</i>

Attachment 4 – Examples of Federal Entities that Apply FASB Standards

Name of Entity	Description/Characteristics
<ul style="list-style-type: none"> ● Federal Financial Institutions Examination Council <ul style="list-style-type: none"> – Prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS), and to make recommendations to promote uniformity in the supervision of financial institutions. 	<ul style="list-style-type: none"> ● <i>Its primary activities are similar to those of a private business enterprise</i> ● <i>Engages primarily in business-type activities with parties inside of the government</i> ● <i>Intended to be self-sustaining</i> ● <i>Does not receive annual appropriations</i> ● <i>Primary business function is to prescribe uniform principles and standards for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of these financial institutions</i>
<ul style="list-style-type: none"> ● Federal Financial Institutions Examination Council Appraisal Subcommittee <ul style="list-style-type: none"> – Ensure that real estate appraisers, who perform appraisals in real estate transactions that could expose the United States government to financial loss, are sufficiently trained and tested to assure competency and independent judgment according to uniform high professional standards and ethics. 	<ul style="list-style-type: none"> ● <i>Its primary activities are similar to those of a private business enterprise</i> ● <i>Engages primarily in business-type activities with parties inside of the government</i> ● <i>Intended to be self-sustaining</i> ● <i>Does not receive annual appropriations</i> ● <i>Primary business function is to monitor the appraiser certification and licensing programs of the States</i>
<ul style="list-style-type: none"> ● Federal Prison Industries, Inc. (Unicor) <ul style="list-style-type: none"> – Employ and provide job skills training to the greatest practical number of inmates confined within the Federal Bureau of Prisons; contribute to the safety and security of the nation's federal correctional facilities by keeping inmates constructively occupied; produce market-quality goods for sale to the federal government; operate in a self-sustaining matter; and minimize FPI's impact on private business and labor. 	<ul style="list-style-type: none"> ● <i>Its primary activities are similar to those of a private business enterprise</i> ● <i>Engages primarily in business-type activities with parties inside of the government</i> ● <i>Intended to be self-sustaining</i> ● <i>Does not receive annual appropriations</i> ● <i>Primary business function is to sell products and services to other federal departments, agencies and bureaus</i>
<ul style="list-style-type: none"> ● National Credit Union Administration Central Liquidity Facility <ul style="list-style-type: none"> – Improve the general financial stability of credit unions by serving as a liquidity lender to credit unions experiencing unusual or unexpected liquidity shortfalls. 	<ul style="list-style-type: none"> ● <i>Its primary activities are similar to those of a private business enterprise</i> ● <i>Engages primarily in business-type activities with parties outside of the government</i> ● <i>Intended to be self-sustaining</i> ● <i>Does not receive annual appropriations</i> ● <i>Primary business function is the provision of loans</i>

Attachment 4 – Examples of Federal Entities that Apply FASB Standards

Name of Entity	Description/Characteristics
<ul style="list-style-type: none"> ● Overseas Private Investment Corporation (OPIC) <ul style="list-style-type: none"> – Mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less developed countries and areas, and countries in transition from nonmarket to market economies. 	<ul style="list-style-type: none"> ● <i>Its primary activities are similar to those of a private business enterprise</i> ● <i>Engages primarily in business-type activities with parties outside of the government</i> ● <i>Intended to be self-sustaining</i> ● <i>Does not receive annual appropriations</i> ● <i>Primary business function is the provision of political risk insurance, investment guaranties, and direct loans</i>
<ul style="list-style-type: none"> ● Saint Lawrence Seaway Development Corporation (DOT) <ul style="list-style-type: none"> – Serve the marine transportation industries by providing a safe, secure, reliable, efficient and competitive deep draft international waterway, in cooperation with the Canadian St. Lawrence Seaway Management Corporation. 	<ul style="list-style-type: none"> ● <i>Primary source of revenue is federal appropriations</i> ● <i>Is not intended to be self-sustaining</i> ● <i>Primary business function is the development, seasonal operation, and maintenance of the portion of the St. Lawrence Seaway between Montreal and Lake Erie, and within the territorial limits of the U.S.</i>
<ul style="list-style-type: none"> ● U.S. Holocaust Memorial Museum <ul style="list-style-type: none"> – Advance and disseminate knowledge about the Holocaust; preserve the memory of those who suffered; and encourage its visitors to reflect upon the moral and spiritual questions raised by the events of the Holocaust as well as their own responsibilities as citizens of a democracy. 	<ul style="list-style-type: none"> ● <i>Primary source of revenue is federal appropriations, but the museum receives nearly as much in contributions, membership, and other revenue</i> ● <i>Is not intended to be self-sustaining</i> ● <i>Primary business function is the operation of a museum</i>
<ul style="list-style-type: none"> ● U.S. Government Printing Office (GPO) <ul style="list-style-type: none"> – Make government information available to the public. 	<ul style="list-style-type: none"> ● <i>Its primary activities are similar to those of a private business enterprise</i> ● <i>Engages primarily in business-type activities with parties inside of the government</i> ● <i>GPO's revolving fund is Intended to be self-sustaining; its general fund is not self-sustaining</i> ● <i>GPO's revolving fund does not receive annual appropriations; it is supported by user fees</i> ● <i>GPO's general fund is financed by two annual Congressional appropriations to the agency. These appropriated funds finance the cost of GPO's support of the Congress and the government information dissemination services provided to the public without charge to the recipients</i> ● <i>Primary business function is the provision of printing and reproduction services</i>
<ul style="list-style-type: none"> ● U.S. House of Representatives <ul style="list-style-type: none"> – Carry out the lawmaking powers granted to it by the U.S. Constitution as one of two separate legislative chambers that 	<ul style="list-style-type: none"> ● <i>Primary source of revenue is federal appropriations</i> ● <i>Is not intended to be self-sustaining</i> ● <i>Primary business function is the passage of laws</i>

Attachment 4 – Examples of Federal Entities that Apply FASB Standards

Name of Entity	Description/Characteristics
<p>comprise the Congress of the United States.</p>	
<ul style="list-style-type: none"> ● U.S. Senate Restaurants Revolving Fund <ul style="list-style-type: none"> – Operate restaurants for senators, employees of the Senate, and (in certain locations) the general public. 	<p>NOTE: Congress voted to privatize Senate Restaurants per public law 110-279</p> <ul style="list-style-type: none"> ● <i>Its primary activities are similar to those of a private business enterprise</i> ● <i>Engages primarily in business-type activities with parties inside of the government</i> ● <i>Intended to be self-sustaining but has only turned a profit in 7 of 44 years</i> ● <i>Receives appropriation transfers from the Architect of the Capitol and U.S. Senate</i> ● <i>Primary business function is the operation of restaurants for senators, employees of the Senate, and (in certain locations) the general public</i>
<ul style="list-style-type: none"> ● Capitol Preservation Fund <ul style="list-style-type: none"> – Provide for improvements in, preservation of, and acquisitions (including works of fine art and other property for display) for the United States Capitol and other locations under the control of the Congress. 	<ul style="list-style-type: none"> ● <i>Its primary activities are similar to those of a private business enterprise</i> ● <i>Does not receive annual appropriations; the fund's operations are financed by proceeds from commemorative coin surcharges</i> ● <i>Primary business function is the oversight of improvements to the U.S. Capitol and other locations under the control of Congress</i>

Differences between FASAB and FASB Accounting and Reporting

Accounting and reporting is not always consistent between federal entities that apply accounting standards promulgated by FASB. However, the following list includes some of the areas where differences have been noted between FASAB and FASB accounting and reporting:

- SFFAS 1, *Accounting for Selected Assets and Liabilities*:
 - Valuation of Investments in Treasury Securities, paragraphs 68-70;
- SFFAS 2, *Accounting for Direct Loans and Loan Guarantees*, as amended by SFFAS 18 and 19:
 - Valuation of liability for guarantees of principal and interest payments on loans between a non-federal lender and a non-federal borrower;
- SFFAS 3, *Accounting for Inventory and Related Property*:
 - Inventory Valuation, paragraph 20;
- SFFAS 4, *Managerial Cost Accounting Standards and Concepts*:
 - General Requirement for Cost Accounting, paragraphs 67-76;
 - Inter-entity Costs, paragraphs 108 and 109;
- SFFAS 5, *Accounting for Liabilities of the Federal Government*:
 - Recognition of Nonexchange Transactions, paragraph 24;
 - Accounting and Reporting for Pensions, Other Retirement Benefits, And Other Postemployment Benefits, paragraphs 56-96;

- SFFAS 6, *Accounting for Property, Plant, and Equipment (PP&E)*:
 - Valuation of Transferred PP&E, paragraph 31;
- SFFAS 7, *Accounting for Revenue and Other Financing Sources*:
 - Financing Imputed for Cost Subsidies, paragraph 73;
 - Budgetary Reporting, paragraphs 77-82;
- SFFAS 15, *Management's Discussions and Analysis*:
 - not addressed; and
- SFFAC 2, *Entity and Display*:
 - not addressed.

The following are some of the areas that are reported by federal entities applying FASB standards but are not addressed by FASAB standards. Since these areas are not currently addressed by FASAB, the hierarchy of accounting principles for federal entities would most likely permit the application of accounting and reporting standards issued by FASB in these areas:

- FASB SFAS 71, *Accounting for the Effects of Certain Types of Regulation*;
- FASB SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities* (regarding available-for-sale securities);
- FASB SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*;
- FASB SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FASAB has recently initiated a joint project on asset impairment and deferred maintenance); and,
- FASB SFAS 143, *Accounting for Asset Retirement Obligations*.

This list is not exhaustive and will be further researched as part of the board's project on reporting by federal entities that primarily apply standards issued by the FASB.