



Federal Accounting Standards Advisory Board

**The Hierarchy of Generally Accepted Accounting Principles,
Including the Application of Standards Issued by the Financial
Accounting Standards Board**

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by February 2, 2009

December 2, 2008

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the Federal Government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, Federal executives, Federal program managers, and other users of Federal financial information. The proposed standards are published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for Federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- “Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”
- “Mission Statement: Federal Accounting Standards Advisory Board”, Exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB’s website at: www.fasab.gov.

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Federal Accounting Standards Advisory Board

December 2, 2008

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments 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*. Specific questions for your consideration appear on page 8 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by February 2, 2009.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to fasab@fasab.gov. If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. Notice of the date and location of any public hearing on this document will be published in the *Federal Register* and in the FASAB's newsletter.

Tom L. Allen
Chairman

Executive Summary

What is the Board proposing?

This statement proposes to incorporate the hierarchy of generally accepted accounting principles (GAAP) into the FASAB's authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of federal reporting entities that are presented in conformity with GAAP and the framework for selecting those principles.

This statement also proposes to clarify GAAP for those federal entities that are currently applying financial accounting and reporting standards issued by the Financial Accounting Standards Board (FASB). This clarification is intended to address concerns that moving the GAAP hierarchy into the accounting standards would cause a sudden and dramatic change in practice for federal entities that apply FASB GAAP. The Board will determine whether additional reporting should be required of federal entities that are currently applying FASB accounting standards as part of its separate project on reporting by federal entities that primarily apply standards issued by the FASB, formerly referred to as the "Appropriate Source of GAAP" project.

How would this proposal improve federal financial reporting and contribute to meeting the federal financial reporting objectives?

The FASAB is the body designated by the American Institute of Certified Public Accountants (AICPA) as the source of GAAP for federal reporting entities. As such, the FASAB is responsible for identifying the sources of accounting principles and providing federal reporting entities with a framework for selecting the principles used in the preparation of financial statements that are presented in conformity with GAAP. However, the hierarchy for selecting the principles used in the *preparation* of financial statements by federal reporting entities is currently set forth in the AICPA Statement on Auditing Standards (SAS) No. 91, *Federal GAAP Hierarchy*, rather than in the authoritative literature of the FASAB. The Board believes that the structure for the selection of principles used in the *preparation* of financial statements should be directed to federal reporting entities because it is the preparer of financial statements that is responsible for identifying accounting principles for financial statements that are presented in conformity with GAAP. Accordingly, the Board concluded that the GAAP hierarchy should reside in the accounting literature established by the FASAB

and is issuing this Statement to accomplish that objective. The Board does not expect that simply incorporating the hierarchy into the accounting literature would require a change in current practice.

In addition, the provision that allows federal entities that have issued general purpose financial reports prior to October 19, 1999, in conformance with accounting and reporting standards issued by the FASB to continue to do so is contained in a FASAB newsletter, rather than in the authoritative literature of the FASAB.¹ This proposed Statement would formally incorporate the newsletter provision into the standards² and provide interim guidance for federal entities that begin preparing GAAP-based financial statements for the first time. Meanwhile, the Board is continuing its separate project on reporting by federal entities that primarily apply standards issued by the FASB to determine what additional reporting, if any, is needed for stand-alone financial reports of federal entities that are currently applying FASB accounting standards in order to meet federal financial reporting objectives.

¹ FASAB News, Jan.-March 2000, p. 2. See Appendix C for a listing of entities that apply standards issued by the FASB and the areas where differences arise between FASB and FASAB.

² FASAB currently has an ongoing project on reporting by federal entities that primarily apply standards issued by the FASB that was intended to eventually accomplish this action but would not have permitted the board to respond to the AICPA request regarding the GAAP hierarchy in a timely manner. Therefore, the board decided to include this provision in conjunction with this standard on the GAAP hierarchy in order to proactively address anticipated concerns from federal entities that moving the GAAP hierarchy into the accounting literature without addressing the use of FASB standards would require a sudden and dramatic change in practice.

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Questions for Respondents

The FASAB encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The questions in this section are available in a Word file for your use at www.fasab.gov/exposure.html. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond electronically, please fax your responses to (202) 512-7366 and follow up by mailing your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

All responses are requested by February 2, 2009.

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.

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.

- 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.

Separate Project on Reporting By Federal Entities That Primarily Apply Standards Issued By The FASB

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>.

- 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.
- 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.

- 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.

Introduction

Purpose

1. The objective of this Statement is to identify the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of federal reporting entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy).
 - a. This Statement responds to a request from the American Institute of Certified Public Accountants (AICPA) that FASAB incorporate the GAAP hierarchy, which currently resides in the professional auditing literature, into the accounting literature.
 - b. This Statement also addresses (1) whether federal entities currently applying standards issued by the Financial Accounting Standards Board (FASB) may continue that practice, and (2) whether federal entities that are preparing GAAP-based financial statements for the first time may also apply FASB standards.

Materiality

2. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

Effective Date

3. The requirements in this standard are effective upon its issuance.

Proposed Standard**Scope**

4. This Statement applies to the financial statements of all federal reporting entities that are presented in conformity with generally accepted accounting principles (GAAP).

The Hierarchy of Generally Accepted Accounting Principles

5. The hierarchy of generally accepted accounting principles, hereafter referred to as the GAAP Hierarchy, governs what constitutes GAAP for federal reporting entities. It lists the priority sequence of pronouncements that a federal reporting entity should look to for accounting and financial reporting authoritative guidance. The sources of accounting principles that are generally accepted are categorized in descending order of authority as follows:
 - a. Officially established accounting principles consist of FASAB Statements of Federal Financial Accounting Standards (Standards) and Interpretations. FASAB Standards and Interpretations will be periodically incorporated in a publication by the FASAB.
 - b. FASAB Technical Bulletins and, if specifically made applicable to federal reporting entities by the AICPA and cleared by the FASAB, AICPA Industry Audit and Accounting Guides and AICPA Statements of Position.³
 - c. AICPA Practice Bulletins if specifically made applicable to federal reporting entities and cleared by the FASAB,⁴ as well as Technical Releases of the Accounting and Auditing Policy Committee of the FASAB.

³ Such pronouncements specifically made applicable to federal reporting entities are presumed to have been cleared by the FASAB, unless the pronouncement indicates otherwise.

⁴ Ibid.

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- d. Implementation guides published by the FASAB staff, as well as practices that are widely recognized and prevalent in the federal government.
 6. If the accounting treatment for a transaction or event is not specified by a pronouncement in category (a), a federal reporting entity should consider whether the accounting treatment is specified by an accounting principle from a source in another category. In such cases, if categories (b)–(d) contain accounting principles that specify accounting treatments for a transaction or event, the federal reporting entity should follow the accounting treatment specified by the accounting principle from the source in the highest category—for example, follow category (b) treatment over category (c) treatment.
 7. If the accounting treatment for a transaction or event is not specified by a pronouncement or established in practice as described in categories (a)–(d), a federal reporting entity should then consider accounting principles for similar transactions or events within categories (a)–(d) before considering Other Accounting Literature discussed in paragraph 8. For example, it might be appropriate to report the event or transaction by applying, in a similar manner, an accounting principle established within categories (a)–(d) for an analogous transaction or event on the basis of its substance.⁵ A federal reporting entity should not follow the accounting treatment specified in accounting principles for similar transactions or events in cases in which those accounting principles either (a) specifically prohibit the application of the accounting treatment to the particular transaction or event or (b) indicate that the accounting treatment should not be applied to other transactions or events by analogy.
 8. Other Accounting Literature includes, for example, FASAB Concepts Statements; the pronouncements referred to in categories (a) through (d) of paragraph 5 when not specifically made applicable to federal reporting entities by the FASAB; FASB Standards, Interpretations, Technical Bulletins, Staff Positions, and Concepts Statements; GASB Standards, Interpretations, Technical Bulletins, and Concepts Statements; AICPA Issues Papers; International Public Sector Accounting Standards of the International Public Sector Accounting Standards Board, (IPSASB), or International Accounting Standards of the International Accounting Standards Board (IASB);

⁵ Generally accepted accounting principles recognize the importance of reporting transactions and events in accordance with their substance. Consideration should be given to whether the substance of transactions or events differs materially from their form.

pronouncements of other professional associations or regulatory agencies; Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles. The appropriateness of other accounting literature depends on its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, FASAB Concepts Statements would normally be more influential than other sources in this category.

Application of Standards Issued by the Financial Accounting Standards Board

9. Some federal entities, including government corporations listed in the Government Corporation Control Act and certain others, such as the United States Postal Service, continue to publish financial reports pursuant to the accounting and reporting standards issued by the FASB. Some entities also may be required to prepare statements pursuant to standards set by a regulatory agency (e.g., the Federal Energy Regulatory Commission (FERC)). General purpose financial reports prepared in conformity with accounting standards issued by the FASB also may be regarded as in conformity with GAAP for those entities that have in the past issued such reports.⁶
10. Except as provided in paragraph 11, a federal entity that is preparing GAAP-based financial statements for the first time should implement FASAB standards as FASAB is the preferred method of reporting for federal entities.
11. In rare instances, a federal entity that is preparing GAAP-based financial statements for the first time may elect to apply standards issued by the FASB if the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards. Unique user needs can arise from various sources that include, but are not limited to, investors, SEC requirements, bondholders, and customers. Entities may determine that the

⁶ See Appendix C for a listing of entities that apply standards issued by the FASB and the areas where differences arise. The FASAB has an existing project underway that will assist the Board in determining if additional reporting should be required of federal entities that are currently applying FASB accounting standards. This project will also consider whether certain federal entities should be permitted to continue following FASB GAAP, given discussions regarding whether public companies should convert from FASB standards to International Financial Reporting Standards published by the International Accounting Standards Board.

application of standards issued by the FASB more appropriately meets these unique user needs. This determination should involve a number of considerations. Examples of factors to consider include but are not limited to:

- a. The entity's primary funding is derived from a source other than through annual federal appropriations.
 - b. The entity has been delegated the financial and operational authority to carry on its activities in a manner similar to private business enterprises.
 - c. The entity sells goods and/or services to individuals outside of the government reporting entity as its principal activity.
 - d. The entity is intended to, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the federal government reporting entity.
 - e. It is desirable to compare general purpose financial reports of the federal entity that is preparing GAAP-based financial statements for the first time with an existing entity that is already following FASB GAAP.
12. While the application of standards issued by the FASB may be acceptable for a limited number of federal entities as noted above, entities that have already implemented standards issued by the FASAB should continue to apply the federal standards, as FASAB is the preferred method of reporting for federal entities.

Application to Legislative and Judicial Branches

13. The accounting standards in FASAB statements are intended for the general purpose financial reports of federal reporting entities. Although FASAB's sponsors do not set accounting standards for the legislative or judicial branches, the Board believes FASAB standards, including the guidance in paragraphs 9 through 12 above, would be appropriate for them if they prepare GAAP-based financial statements.

Effective Date

14. The requirements in this standard are effective upon its issuance.

The provisions of this Statement need not be applied to immaterial items.

Appendix A: Basis for Conclusions

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting and reporting for specific transactions, events, or conditions.

Project History

- A1. Representatives of the American Institute of Certified Public Accountants (AICPA) requested that the U.S. accounting standards-setters consider adopting certain guidance for accounting and financial reporting issues that now reside in the professional auditing literature. In July 2008, the FASAB joined the Governmental Accounting Standards Board in responding to this request.
- A2. The Board believes that incorporation of the GAAP hierarchy into the FASAB's authoritative literature would more clearly convey that financial statement preparers are responsible for selecting the sources of the principles to be used in the preparation of financial statements that are presented in conformity with GAAP. The structure presented in this Statement generally carries forward the hierarchy as set forth in SAS 91 and the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements.

Application of Standards Issued by the Financial Accounting Standards Board

- A3. Since October 1999, the AICPA has recognized the 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 U.S. Postal Service, certain component entities of the U.S. Department of the Treasury, and some smaller entities in the executive and legislative branches have historically applied FASB GAAP and continue to do so.

- A4. In early 2000, the 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 the FASAB was recognized as the Rule 203 standards-setting body for the federal government. This guidance was published in the January – March 2000 issue of *FASAB News*⁷ and was intended as a temporary measure in light of the unanticipated consequences of Rule 203 recognition. The existence of the issue has also been acknowledged in Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display* (paragraph 78); Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government* (inside front cover and Appendix A, paragraph 142); SFFAS 8, *Supplementary Stewardship Reporting* (Introduction paragraph 40); and, SFFAS 24, *Selected Standards for the Consolidated Financial Report of the United States Government* (Appendix A, paragraph 20).
- A5. Providing guidance on the application of standards issued by the FASB serves two purposes:
- a. To proactively address entity concerns that moving the hierarchy of generally accepted accounting principles into the accounting literature without addressing the use of FASB GAAP would require a sudden and dramatic change in practice; and,
 - b. To respond to the AICPA's recommendation that the FASAB clarify its policy with regard to entities that have been following FASB standards.⁸

Application to Legislative and Judicial Branches

- A6. The FASAB's sponsors do not prescribe accounting standards for the legislative and judicial branches. The legislative and judicial branches, and most entities within those branches, are not currently

⁷ FASAB News, Jan.-March 2000, p. 2.

⁸ Letter dated July 17, 2002, from Patrick L. McNamee, Chair of the AICPA FASAB Liaison Task Force, commenting on the exposure draft of SFFAS 24, *Selected Standards for the Consolidated Financial Report of the United States Government*, Comment 1.

required to prepare financial statements and those that do prepare statements are not subject to any requirements by the FASAB's sponsors to follow FASAB GAAP or prepare a reconciliation between FASAB GAAP and FASB GAAP. However, the AICPA has designated the FASAB as the source of GAAP for federal reporting entities. Therefore, FASAB GAAP would be the appropriate accounting standards for these entities to adopt if they prepare GAAP-based financial statements.

Companion Project on Reporting by Federal Entities that Primarily Apply Standards Issued by the FASB

- A7. The Board has a separate ongoing project on reporting by federal entities that primarily apply standards issued by the FASB (formerly referred to as "Appropriate Source of GAAP") that 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.
- A8. The primary objective of this companion project is to assist the Board in determining whether additional reporting should be required in stand-alone general purpose financial reports of federal entities that are currently applying FASB accounting standards.
- A9. From January 2006 through February 2008, the FASAB staff ("staff") presented various options to the Board with accompanying research and analyses. This research included preparing detailed profiles of ten federal entities that have historically followed FASB GAAP: Community Development Financial Institution, Corporation for National and Community Service, Federal Deposit Insurance Corporation, Federal Prison Industries (Unicor), Government National Mortgage Association (Ginnie Mae), Office of Thrift Supervision, Pension Benefit Guaranty Corporation, Tennessee Valley Authority, Millennium Challenge Corporation (MCC), and U.S. Mint (MCC and the Mint switched to FASAB GAAP beginning with its fiscal year 2007 and 2005 financial statements, respectively).

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- A10. At the February 2008 meeting, the Board 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.
- A11. Staff plans to analyze differences between FASB and FASAB standards to identify areas where additional reporting may be needed to achieve federal financial reporting objectives.
- A12. One Board member believes that the inclusion of Appendix C: Examples of Federal Entities that Apply FASB Standards in conjunction with the criteria in paragraph 11 might lead respondents to invoke the criteria on entities that are already preparing GAAP financial statements (i.e., the entities in Appendix C). As evidenced by the Board's position in paragraph 9, it is not the intent of the Board to apply the criteria in paragraph 11 to the entities in Appendix C. The majority of the Board members voted to retain Appendix C in the ED, stating that they believe that the information contained in Appendix C will provide the respondents with relevant information that can be used to prepare a response to question Q2.
- A13. A second objective of the companion project is to address compilation issues that are occurring during the consolidation of the Financial Report of the U.S. Government (CFR) and other parent agencies as a result of federal entities using different sources of GAAP.
- A14. While deliberating on the requirements of this Statement, the Board considered the issue of how the CFR and consolidated financial reports of entities consolidating FASB-based reporting entities would acquire the information required to meet all material FASAB requirements relative to these entities. After much discussion, the Board deferred the issue of whether FASB-based federal reporting entities must provide additional reporting or supplementary information when financial information is submitted for consolidation into another federal reporting entity and material differences would arise due to differences between the standards issued by the two boards.
- A15. The Board acknowledged that this requirement may result in a change in practice for those entities that have not been providing such information in the past.⁹ Although the Board expected the effect on the

⁹ Note that OMB Circular A-136, Section V.1 currently requires submission of information regarding material differences. In addition, previous FASAB standards established this general principle through guidance regarding applicability of the standards.

community to be minimal since it related only to areas where material differences arise, the Board felt that no significant changes in practice should be required at this time until more is known about what additional reporting may be recommended as a result of the Board's companion project on reporting by federal entities that primarily apply standards issued by the FASB.

- A16. A third objective of the companion project will be to determine whether federal entities that are presently reporting in conformance with FASB standards should be permitted to convert to IFRS, given the discussions regarding whether public companies should use IFRS. The Board plans to address this objective once a plan for non-listed entities (private companies and non-profits) emerges. At this time, there is no consensus regarding the future source of GAAP for private companies and non-profits.

Appendix B: Abbreviations

AICPA	American Institute of Certified Public Accountants
CFR	Consolidated Financial Report of the U.S. Government
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IPSASB	International Public Sector Accounting Standards Board
OMB	Office of Management and Budget
SAS	Statement on Auditing Standards

Appendix C: 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 a response to question Q2 regarding whether you agree or disagree with the Board's position that federal entities that have applied FASB standards in the past may continue to do so. The column labeled "description/characteristics" is intended to provide you with a better understanding 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 separate 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 Entities that Apply FASB Standards

Name of Entity	Description/Characteristics
<ul style="list-style-type: none"> ● Farm Credit System Insurance Corporation (FCSIC) ¹⁰ <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, 	<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>

¹⁰ 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.

Name of Entity	Description/Characteristics
<p>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.</p>	<ul style="list-style-type: none"> ● <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>
<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>

Name of Entity	Description/Characteristics
<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> ● <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)¹¹ <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>

¹¹ 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).

Name of Entity	Description/Characteristics
<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 institutions to provide credit, capital, and financial services to underserved populations and communities in the U.S. 	<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>
<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 	<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>

Name of Entity	Description/Characteristics
<p>documents, including Federal Reserve Notes, identification cards, naturalization certificates, and other special security documents.</p>	
<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) <ul style="list-style-type: none"> – 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>
<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>

Name of Entity	Description/Characteristics
<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>
<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>

Name of Entity	Description/Characteristics
<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 comprise the Congress of the United States. 	<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>

Name of Entity	Description/Characteristics
<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 separate project on reporting by federal entities that primarily apply standards issued by the FASB.

Appendix D: Glossary

GAAP Hierarchy: the sources of accounting principles used in the preparation of financial statements of federal reporting entities that are presented in conformity with generally accepted accounting principles and the framework for selecting the principles.

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