

# Insights

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## Season's Greetings

As this year draws to a close, the National Office of Audit and Accounting extends our warmest greetings to you. We wish you and your family a joyful holiday season and a new year filled with happiness! May you experience the gift of time to create treasured memories with the special people in your life.

## Best Wishes, Bill Travis

After a successful 31-year career with McGladrey & Pullen, LLP, Bill Travis will retire from the Firm effective December 31, 2006.

Having earned degrees in economics, political science and philosophy from Cornell College and a master's degree in accounting from the University of Iowa, Bill joined McGladrey & Pullen in 1975 as a staff accountant in the Firm's Minneapolis office. He was admitted to partnership in 1983 and in 1996 was appointed to be the Firm's SEC Coordinator. One year later, he was named Executive Partner of National Audit and Accounting. Bill became McGladrey & Pullen's Managing Partner in 1999, serving as an architect for the Firm's alternative practice structure.

Bill is a highly respected member of our Firm and the entire accounting profession. In addition to his responsibilities at McGladrey & Pullen, Bill serves as a member of the Governing Council of the American Institute of Certified Public Accountants (AICPA), the Board of Trustees for the AICPA Foundation, and the Board of Directors of the Public Company Auditors Forum. He will remain an advisor to or member of the McGladrey & Pullen board of directors through at least June 2008.

Believing that Bill is an excellent leader in all respects, Leroy Dennis, Executive Partner of National Audit and Accounting, said, "Bill Travis leads by example. He has modeled the highest of ethical standards for our profession, the most devoted client service, the best attitude about the future of our Firm, and the deepest concern for our people. I am grateful that I have had the privilege of working with Bill."

Bill's colleagues and clients appreciated his hard work, his wisdom, and his thoughtful advice on complex operational and auditing concerns. McGladrey & Pullen is very thankful for his many successful years of dedicated professional service and for the enthusiastic leadership he provided in so many ways. Our firm is a better place because of Bill Travis. We wish Bill the very best!

*"To laugh often and much; to win the respect of intelligent people and the affection of children...to leave the world a better place...to know even one life has breathed easier because you have lived. This is to have succeeded."*

- Ralph Waldo Emerson

## Accounting

### Final Consensuses Ratified for Four EITF Issues

At its November 28, 2006 meeting, the Financial Accounting Standards Board (FASB) ratified the final consensuses for the following Issues reached at the November 16, 2006 Emerging Issues Task Force (EITF) meeting:

- *EITF Issue No. 06-6, "Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments"*

The accounting question addressed in this Issue is how to take into account the effects on the terms of an embedded conversion option in determining whether a modification or exchange of a convertible debt instrument should be accounted for as a debt extinguishment. A consensus was reached that three tests are required to determine whether extinguishment accounting is appropriate. If any of the following three tests are met, then extinguishment accounting is required:

- The first test results in extinguishment accounting if a substantive conversion option is either added or eliminated as a result of the modification or exchange of the convertible debt instrument.
- The second test is the analysis required by Issue 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments," if the first test does not result in a conclusion that a substantial modification or an exchange has occurred.
- The third test results in extinguishment accounting if the change in the fair value of the embedded conversion option is at least 10 percent of the carrying value of the debt instrument just before the modification.

If extinguishment accounting is not applied, the EITF concluded that fair value accounting should be applied when the terms of the embedded conversion option are otherwise affected by the modification or exchange of the convertible debt instrument.

- *EITF Issue No. 06-7, "Issuer's Accounting for a Previously Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in FASB Statement No. 133, 'Accounting for Derivative Instruments and Hedging Activities'"*

The accounting question addressed in this Issue is how to account for a previously bifurcated conversion option in a convertible debt instrument when it no longer meets the conditions for separate accounting as a derivative instrument in Statement No. 133. A consensus was reached that when such a conversion option no longer meets the bifurcation criteria, reclassification of the carrying amount of the liability for the conversion option to shareholders' equity should occur and amortization of the debt discount recorded at issuance should continue over the remaining term of the agreement.

For the conversion of an Issue 06-7 instrument, a consensus was reached that the issuer should recognize any unamortized discount remaining at the date of conversion immediately as interest expense. If a convertible debt instrument with a conversion option for which the carrying amount has previously been reclassified to shareholders' equity pursuant to the guidance in this Issue is extinguished for cash (or other assets) prior to its stated maturity date, the portion of the reacquisition price equal to the fair value of the conversion option at the date of the extinguishment

should be allocated to equity and the remaining reacquisition price should be allocated to the extinguishment of the debt to determine the amount of gain or loss.

- *EITF Issue No. 06-8, "Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66, 'Accounting for Sales of Real Estate', for Sales of Condominiums"*

The accounting question addressed in this Issue is whether the adequacy of a buyer's continuing investment to demonstrate a commitment to pay for the property must be evaluated for purposes of determining whether it is appropriate to recognize profit from a real estate sale involving a condominium unit or time-sharing interest under the percentage-of-completion method under Statement No. 66. A consensus was reached that an entity is required to evaluate the adequacy of the buyer's initial and continuing investment for purposes of determining whether it is appropriate to recognize profit using the percentage-of-completion method.

- *EITF Issue No. 06-9, "Reporting a Change in (or the Elimination of) a Previously Existing Difference between the Fiscal Year-End of a Parent Company and That of a Consolidated Entity or between the Reporting Period of an Investor and That of an Equity Method Investee"*

Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, and APB Opinion No. 18, *The Equity Method of Accounting For Investments in Common Stocks*, allow for the use of a lag period to consolidate the results of a subsidiary's operations or recognize the proportionate share of earnings and losses in an equity method investment. In the situation in which there is a change to the reporting year-end of either a consolidated subsidiary or an equity-method investee that results in a change to the lag period, there has been diversity in practice in accounting for the change. Given the new requirements of FASB Statement No. 154, *Accounting Changes and Error Corrections*, questions have arisen regarding a parent's or investor's accounting when there has been a change to the reporting year-end of either a consolidated subsidiary or an equity method investee that results in a change to the lag period. A consensus was reached that a parent or investor would be required to account for a change in or elimination of a previously existing difference between its year-end and that of a consolidated subsidiary or equity method investee as a change in accounting principle through retrospective application, if practicable.

These consensus also provide guidance related to disclosures, transition and effective dates.

### **Tentative Conclusions Reached on Two EITF Issues**

Draft abstracts of the following Emerging Issues Task Force (EITF) Issues were recently approved for exposure for public comment by the Financial Accounting Standards Board (FASB):

- *EITF Issue No. 06-10, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements"*

The scope of this Issue is limited to the employer's recognition of (a) the liability and the related compensation costs for collateral assignment split-dollar life insurance arrangements that provide a benefit to an employee that extends into postretirement periods and (b) the asset in collateral assignment split-dollar arrangements. A tentative conclusion was reached that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, (if, in substance, a postretirement benefit plan exists) or APB Opinion No. 12, *Omnibus Opinion—1967*, (if the arrangement is, in substance, an

individual deferred compensation contract) based on the substantive agreement with the employee. A tentative conclusion also was reached that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement.

- *EITF Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards"*

This Issue applies to share-based payment arrangements with dividend protection features that entitle employees to receive (a) dividends on equity-classified nonvested shares, (b) dividend equivalents on equity-classified nonvested share units, or (c) payments equal to the dividends paid on the underlying shares while an equity-classified share option is outstanding, when those dividends or dividend equivalents are charged to retained earnings under FASB Statement No. 123 (revised 2004), *Share-Based Payment*, and result in an income tax deduction for the employer. A tentative conclusion was reached that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase in additional paid-in capital.

Draft abstracts of the above tentative conclusions are available for comment until January 22, 2007 at [http://www.fasb.org/eitf/eitf\\_draft\\_abstracts.shtml](http://www.fasb.org/eitf/eitf_draft_abstracts.shtml).

Also at the November meeting, the SEC staff announced that certain amendments were made to Topic D-36 to conform it with FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

### **Chookaszian to Chair FASAC**

The Financial Accounting Foundation has announced that Dennis H. Chookaszian has been named chairman of the Financial Accounting Standards Advisory Council (FASAC). The FASAC advises the Financial Accounting Standards Board (FASB) on technical issues relating to the Board's agenda, project priorities, and other matters. Mr. Chookaszian will commence a four-year term on January 1, 2007.

After 26 years of service with CNA Insurance Companies, Mr. Chookaszian retired as its chairman and chief executive officer in 1999. Mr. Chookaszian, a certified public accountant, also has been a director for numerous other public corporations. He has served on many committees and task forces of the American Institute of Certified Public Accountants and the FASB, including FASAC, and was a member of the Public Oversight Board Panel on Audit Effectiveness. Mr. Chookaszian earned a bachelor's degree in chemical engineering from Northwestern University, an MBA degree in finance from the University of Chicago, and a master's degree in economics from the London School of Economics.

## **Auditing**

### **The Auditor's Communication With Those Charged With Governance**

The AICPA Auditing Standards Board has issued Statement on Auditing Standards (SAS) No. 114, *The Auditor's Communication With Those Charged With Governance*. This Standard provides a framework for the auditor's communication with those charged with governance and identifies some specific matters to be communicated with them. The Standard supersedes SAS 61, *Communication With Audit Committees*.

The term “those charged with governance” means the person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. (For entities with a board of directors, this term encompasses the board of directors or audit committee.) SAS 114 requires the auditor to communicate with those charged with governance matters related to the financial statement audit that are, in the auditor’s professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. SAS 114 also sets the expectation that communication will be two way, and that those charged with governance will communicate with the auditor matters they consider relevant to the audit. Such matters might include strategic decisions that may significantly affect the nature, timing, and extent of audit procedures; the suspicion or the detection of fraud; or concerns about the integrity or competence of senior management.

Per SAS 114, the auditor should communicate with those charged with governance:

- The auditor’s responsibilities under generally accepted auditing standards;
- An overview of the planned scope and timing of the audit ; and
- Significant findings from the audit, including:
  - The auditor’s views about qualitative aspects of the entity’s significant accounting practices.
  - Significant difficulties, if any, encountered during the audit.
  - Uncorrected misstatements, other than those the auditor believes are trivial, if any.
  - Disagreements with management, if any.
  - Other findings or issues, if any, arising from the audit that are, in the auditor’s professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process.

The auditor should communicate with those charged with governance on a sufficiently timely basis to enable those charged with governance to take appropriate action. The auditor should communicate in writing with those charged with governance significant findings from the audit when, in the auditor’s professional judgment, oral communication would not be adequate. Other communications may be oral or in writing.

This statement is effective for audits of financial statements for periods beginning on or after Dec. 15, 2006.

## Public Sector

### Accounting for Pollution Remediation Obligations

The Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, to provide guidance for the accounting and reporting of obligations and costs related to pollution remediation. This Statement addresses accounting and financial reporting standards for obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups. According to the Standard, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:

- Pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem;

- A government has violated a pollution-prevention-related permit;
- A regulator has identified (or evidence indicates a regulator will identify) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the clean up;
- A government is named in a lawsuit (or evidence indicates that it will be) to compel it to address the pollution; or
- A government begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

Most pollution remediation outlays do not qualify for capitalization and would be accrued as a liability (subject to modified accrual provisions in governmental funds) and expenditure or expense, as appropriate, when a range of expected outlays is reasonably estimable. In addition to the liabilities, expenses, or expenditures which would be estimated using an "expected cash flows" measurement technique and reported in the financial statements, the Standard requires governments to disclose information about their pollution clean up efforts in the notes to the financial statements.

The requirements of this Statement will be effective for financial statements for periods beginning after December 15, 2007, with measurement of pollution remediation liabilities required at the beginning of that period so that beginning net assets can be restated.

## SEC

### PCAOB to Consider Revised Auditing Standard on Internal Control Over Financial Reporting

The Public Company Accounting Oversight Board (PCAOB) has announced that it will conduct an open meeting on December 19, 2006 to consider proposing for public comment a new auditing standard to supersede PCAOB Auditing Standard (AS) No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*. Changes to AS 2 are being considered to provide for more efficient, risk-based, and scalable implementation of the Standard, while maintaining its benefits to investors.

Accelerated filers have been required to comply with the Section 404 of the Sarbanes-Oxley Act of 2002 (SOX 404) since fiscal years ending after November 14, 2004. Under current SEC rules, a public company that is not required to file annual and quarterly reports on an accelerated basis (i.e., a non-accelerated filer) would be required to first comply with SOX 404 for its first fiscal year ending on or after July 15, 2007. However, per Proposed Rule 33-8731, a non-accelerated filer would not be required to provide management's report on internal control over financial reporting until it files an annual report for a fiscal year ending on or after December 15, 2007, and the auditor's attestation report on internal control over financial reporting would not be required until a non-accelerated filer files an annual report for a fiscal year ending on or after December 15, 2008.

Before non-accelerated filers will be expected to comply with the internal control reporting requirements, the PCAOB intends to propose for public comment a new auditing standard on internal control, together with certain other related proposals. The proposal is expected to be guided by five goals:

- Focus the internal control audit on the most important matters that present the greatest risk that a company's internal controls will fail to detect or prevent a material misstatement in its financial statements.

- Eliminate procedures that are unnecessary to achieve the intended benefits of the audit.
- Incorporate into the standard the guidance on efficiency that has been issued by the PCAOB.
- Provide explicit and practical guidance on scaling the audit to fit the size and complexity of the company.
- Present a revised auditing standard that is shorter, easier to understand, and more clearly scalable to audits of companies of all sizes and complexity.

The PCAOB's consideration of a proposed new standard does not change current rules or regulations unless formally adopted by the SEC. Therefore, you should continue to plan that the adoption of SOX 404 will occur as currently scheduled in the law. You may monitor the McGladrey & Pullen's Web site for updates and current events.

### **SFAS 123(R) Disclosures in Interim Financial Statements in the Year after Adoption**

FASB Statement No. 123(R), *Share-Based Payment*, requires that the fair value resulting from all share-based payment transactions be recognized in the financial statements. Statement No. 123(R) was effective as of the beginning of the first fiscal year that began after June 15, 2005 for public entities that do not file as small business issuers and as of the beginning of the first fiscal year that began after December 15, 2005 for public entities that file as small business issuers. The question has arisen as to which financial statement disclosures are required by Statement No. 123(R) in interim financial statements subsequent to the year of adoption.

In the period that Statement No. 123(R) was adopted, all of the disclosures required by the standard were required to be disclosed in each interim statement. Also, disclosures of the effect of the change were required. In addition, if awards under share-based payment arrangements with employees were accounted for under the intrinsic value method of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, for any reporting period for which an income statement was presented, public entities were required to continue to provide the tabular presentation of information that was required by Statement No. 123 for prior-year periods. However, all disclosures in paragraph A 240 are not required to be made in interim periods subsequent to the year of adoption.

Registrants are required by SEC Regulation S-X Rule 10-01(a)(5) to include sufficient disclosures so as to make the interim information presented not misleading. Registrants may presume that users of the interim financial information have read or have access to the audited financial statements for the preceding fiscal year and that the adequacy of additional disclosure needed for a fair presentation, except in regard to material contingencies, may be determined in that context. Accordingly, footnote disclosure which would substantially duplicate the disclosures contained in the most recent annual report to security holders or details of accounts which have not changed significantly in amount or composition since the end of the most recently completed fiscal year may be omitted. However, disclosure must be provided where events subsequent to the end of the most recent fiscal year have occurred that have a material impact on the registrant.

Therefore, interim financial statement footnote disclosures related to share-based payments only need to provide details of events subsequent to the end of the most recent fiscal year that have a material impact on the registrant with respect to:

- The terms of share-based payment arrangements that existed during the period or the potential effects of those arrangements on shareholders.

- The effect of compensation cost arising from share-based payment arrangements on the income statement, including significant options granted or modified during the period.
- Disclosing the method or assumptions of estimating fair values if there are changes during the succeeding year.
- The cash flow effects resulting from share-based payment arrangements, which includes amounts received for exercise of stock options and excess tax benefits over the amount recorded as a deferred tax asset.

An entity that acquires goods or services other than employee services in share-based payment transactions should provide disclosures similar to those listed above to the extent that those disclosures are important to an understanding of the effects of those transactions on the interim financial information.

## 2006 Effective Date Reminder

This Effective Date Reminder lists only those pronouncements issued as of December 1, 2006, which became effective on or after January 1, 2006 for most entities or have not yet become effective for all entities as of December 1, 2006.

### Financial Accounting Standards Board

#### **SFAS No. 123 (revised 2004), *Share-Based Payment***

Publicly traded companies, other than small business issuers, must apply this Standard as of the beginning of the first interim or annual reporting period of the registrant's first fiscal year beginning on or after June 15, 2005. Public entities that file as small business issuers must comply as of the beginning of the first interim or annual reporting period of the registrant's first fiscal year beginning on or after December 15, 2005. Nonpublic entities are required to apply SFAS 123(R) as of the beginning of the first annual reporting period that begins after December 15, 2005.

#### **SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity***

All of the provisions of this Statement are effective, except for:

##### *Non-SEC registrants:*

- Mandatorily redeemable financial instruments that are not redeemable on fixed dates for amounts that are either fixed or determined by reference to an interest rate index, currency index or another external index, the classification, measurement, and disclosure provisions of SFAS 150 are deferred indefinitely pending further Board action.

##### *All entities:*

- Mandatorily redeemable noncontrolling interests that would not have to be classified as liabilities by the subsidiary, under the "only upon liquidation" exception in paragraph 9 of SFAS 150, but would be classified as liabilities by the parent in consolidated financial statements, the classification and measurement provisions (but not the disclosure provisions) of SFAS 150 are deferred indefinitely pending further Board action.

- Mandatorily redeemable noncontrolling interests, other than those in the first bullet point above, that were issued before November 5, 2003, the *measurement* provisions of SFAS 150 are deferred indefinitely, both for the parent in consolidated financial statements and for the subsidiary that issued the instruments that result in the mandatorily redeemable noncontrolling interest, pending further Board action. However, the *classification and disclosure* provisions are not deferred.

**SFAS No. 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4***

This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005.

**SFAS No. 152, *Accounting for Real Estate Time-Sharing Transactions - an amendment of FASB Statements No. 66 and 67***

This Statement is effective for years beginning after June 15, 2005.

**SFAS No. 153, *Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29***

This Statement is effective for nonmonetary asset exchanges occurring in periods beginning after June 15, 2005.

**SFAS No. 154, *Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3***

This Statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

**SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140***

This Statement is effective for all financial instruments acquired, issued, or subject to a remeasurement (new basis) event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006.

**SFAS No. 156, *Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140***

An entity must adopt this Statement as of the beginning of its first fiscal year that begins after September 15, 2006.

**SFAS No. 157, *Fair Value Measurements***

This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years.

**SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)***

The requirement to recognize the funded status of a benefit plan and the disclosure requirements for entities with publicly traded equity securities are effective as of the end of the fiscal year ending after December 15, 2006; for all other entities those requirements are effective at the end of the fiscal year

ending after June 15, 2007. However, an employer without publicly traded equity securities is required to disclose certain information in financial statements for a fiscal year ending after December 15, 2006, but before June 16, 2007, unless it has applied the recognition provisions of SFAS No. 158 in preparing those financial statements. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end balance sheet is effective for fiscal years ending after December 15, 2008 for all affected employers.

**FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109***

This Interpretation is effective for fiscal years beginning after December 15, 2006.

## Emerging Issues Task Force

Note: Unless the consensus to a specific Issue states otherwise, a public company will be required to adopt an EITF consensus at the beginning of the next quarter after the date the consensus was approved by the FASB. A nonpublic company will be required to adopt a consensus at the beginning of the next reporting period after the date the consensus was approved by the FASB. Thus, a nonpublic company that issues only annual financial statements will not be required to adopt a consensus until the beginning of its next fiscal year. This transition guidance varies by EITF Issue, and in many situations is very complex. Please see the appropriate EITF Issue Abstract for further guidance.

**EITF Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights***

This consensus was effective June 29, 2005 for newly formed limited partnerships and for existing limited partnership agreements that are modified. For general partners in all other limited partnerships, the guidance is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005.

**EITF Issue No. 04-6, *Accounting for Stripping Costs Incurred during Production in the Mining Industry***

This consensus is effective for the first reporting period in years beginning after December 15, 2005.

**EITF Issue No. 04-13, *Accounting for Purchases and Sales of Inventory with the Same Counterparty***

This consensus must be applied to new arrangements entered into, or modifications or renewals of existing arrangements, in the first interim or annual reporting period beginning after March 15, 2006.

**EITF Issue No. 05-1, *Accounting for the Conversion of an Instrument That Became Convertible upon the Issuer's Exercise of a Call Option***

This consensus is effective for all conversions within the scope of this Issue that result from the exercise of call options that occur in interim or annual reporting periods beginning after June 28, 2006, irrespective of whether the instrument was entered into prior or subsequent to that date.

**EITF Issue No. 05-2, *The Meaning of "Conventional Convertible Debt Instrument" in EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, or Potentially Settled in, a Company's Own Stock***

This consensus is effective for new instruments entered into and instruments modified in reporting periods beginning after June 29, 2005.

**EITF Issue No. 05-5, *Accounting for Early Retirement or Postemployment Programs with Specific Features (Such As Terms Specified in Altersteilzeit Early Retirement Arrangements)***

This consensus must be applied to fiscal years beginning after December 15, 2005.

**EITF Issue No. 05-6, *Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination***

This consensus is effective on a prospective basis for subsequently acquired leasehold improvements purchased or acquired in periods beginning after June 29, 2005.

**EITF Issue No. 05-7, *Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues***

This consensus must be applied to future modifications of debt instruments beginning in the first interim or annual reporting period beginning after December 15, 2005.

**EITF Issue No. 05-8, *Income Tax Consequences of Issuing Convertible Debt with a Beneficial Conversion Feature***

This consensus must be applied to financial statements beginning in the first interim or annual reporting period beginning after December 15, 2005.

**EITF Issue No. 06-1, *Accounting for Consideration Given by a Service Provider to a Manufacturer or Reseller of Equipment Necessary for an End-Customer to Receive Service from the Service Provider***

The consensus is effective for the first annual reporting period beginning after June 15, 2007.

**EITF Issue No. 06-2, *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, "Accounting for Compensated Absences"***

This consensus is effective for fiscal years beginning after December 15, 2006.

**EITF Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)***

This consensus is effective for interim and annual reporting periods beginning after December 15, 2006.

**EITF Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements***

This consensus is effective for fiscal years beginning after December 15, 2007.

**EITF Issue No. 06-5, *Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, “Accounting for Purchases of Life Insurance”***

This consensus is effective for fiscal years beginning after December 15, 2006.

**EITF Issue No. 06-6, *Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments***

This consensus should be applied to modifications or exchanges of debt instruments beginning in the first interim or annual reporting period after November 29, 2006.

**EITF Issue No. 06-7, *Issuer's Accounting for a Previously Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities”***

This consensus should be applied to all previously bifurcated conversion options in convertible debt instruments that no longer meet the bifurcation criteria in Statement No. 133 in interim or annual periods beginning after December 15, 2006, irrespective of whether the debt instrument was entered into prior or subsequent to the effective date of this Issue.

**EITF Issue No. 06-8, *Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66, “Accounting for Sales of Real Estate, for Sales of Condominiums”***

This consensus is effective for the first annual reporting period beginning after March 15, 2007.

**EITF Issue No. 06-9, *Reporting a Change in (or the Elimination of) a Previously Existing Difference between the Fiscal Year-End of a Parent Company and That of a Consolidated Entity or between the Reporting Period of an Investor and That of an Equity Method Investee***

This consensus is effective for future changes beginning in the first interim or annual reporting periods after November 29, 2006.

**EITF Topic No. D-98, *Classification and Measurement of Redeemable Securities***

Guidance clarified by the SEC staff regarding the impact of certain redeemable securities on earnings per share calculations must be applied in the first fiscal period beginning after September 15, 2005.

## FASB Staff Positions

Note: In general, the interpretive guidance in FSPs is effective immediately upon posting to the FASB Web site. Those FSPs that affect the effective date of accounting pronouncements listed elsewhere in this document are incorporated therein.

**FSP APB 18-1, *Accounting by an Investor for its Proportionate Share of Accumulated Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18, “The Equity Method of Accounting for Investments in Common Stock”, upon a Loss of Significant Influence***

This FSP is effective in the first reporting period beginning after July 12, 2005.

**FSP FAS 13-1, *Accounting for Rental Costs Incurred during a Construction Period***

This FSP must be applied to the first reporting period beginning after December 15, 2005. A lessee is required to cease capitalizing rental costs as of this effective date for operating lease arrangements entered into prior to the effective date.

**FSP FAS 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction***

This FSP must be applied to fiscal years beginning after December 15, 2006.

**FSP FAS 19-1, *Accounting for Suspended Well Costs***

This FSP is effective in the first reporting period beginning after April 4, 2005.

**FSP FAS 115-1 and 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments***

This FSP must be applied to reporting periods beginning after December 15, 2005.

**FSP FAS 123(R)-1, *Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under FASB Statement No. 123(R)***

This FSP must be applied upon initial adoption of SFAS No. 123(R). An entity that adopted SFAS No. 123(R) prior to the issuance of this FSP must apply the guidance in this FSP in either the first reporting period beginning after August 31, 2005, or an earlier period, if the financial statements for that period have not been issued.

**FSP FAS 123(R)-4, *Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event***

This FSP is effective upon initial adoption of Statement No. 123(R). An entity that adopted Statement No. 123(R) prior to the issuance of the FSP must apply the guidance in the FSP in the first reporting period beginning after February 3, 2006.

**FSP FAS 123(R)-5, *Amendment of FASB Staff Position FAS 123 (R)-1***

This FSP must be applied in the first reporting period beginning after October 10, 2006.

**FSP FAS 123(R)-6, *Technical Corrections of FASB Statement No. 123 (R)***

This FSP must be applied in the first reporting period beginning after October 20, 2006.

**FSP FAS 126-1, *Applicability of Certain Disclosure and Interim Reporting Requirements for Obligors for Conduit Debt Securities***

This FSP must be applied prospectively in fiscal periods beginning after December 15, 2006.

**FSP FAS 150-5, *Issuer's Accounting under FASB Statement No. 150 for Freestanding Warrants and Other Similar Instruments on Shares That Are Redeemable***

This guidance must be applied in the first reporting period beginning after June 30, 2005.

**FSP FIN 45-3, *Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners***

This FSP is effective for new minimum revenue guarantees issued or modified on or after the beginning of the first fiscal quarter after November 10, 2005. For any minimum revenue guarantees issued prior to the initial application of the FSP and not accounted for under FIN 45, the retroactive application of the initial recognition and initial measurement provisions of FIN 45 is not permitted. The FIN 45 disclosure requirements should be applied to all minimum revenue guarantees, regardless of whether those guarantees were recognized and measured under FIN 45, as amended by this FSP.

**FSP FIN 46(R)-5, *Implicit Variable Interests under FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities"***

For entities to which FIN 46(R) has been applied, this FSP must be applied in the first reporting period beginning after March 3, 2005. For entities to which FIN 46(R) has not been applied, this FSP must be applied in accordance with the effective date and transition provisions of FIN 46(R).

**FSP FIN 46(R)-6, *Determining the Variability to Be Considered in Applying FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities"***

This FSP must be applied prospectively to all entities (including newly created entities) with which that enterprise first becomes involved and to all entities previously required to be analyzed under FIN 46(R) when a reconsideration event has occurred pursuant to paragraph 7 of FIN 46(R) beginning the first day of the first reporting period beginning after June 15, 2006.

**FSP FTB 85-4-1, *Accounting for Life Settlement Contracts by Third-Party Investors***

This FSP must be applied to fiscal years beginning after June 15, 2006.

**FSP EITF 85-24-1, *Application of EITF Issue No. 85-24, "Distribution Fees by Distributors of Mutual Funds That Do Not Have a Front-End Sales Charge", When Cash for the Right to Future Distribution Fees for Shares Previously Sold is Received from Third Parties***

This FSP is effective for reporting periods beginning after March 11, 2005.

**FSP EITF 00-19-1, *Application of EITF Issue No. 00-19 to Freestanding Financial Instruments Originally Issued as Employee Compensation***

This FSP must be applied in accordance with the effective date and transition provisions of Statement No. 123(R).

**FSP SOP 78-9-1, *Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5***

For all new partnerships and for existing partnerships for which the partnership agreement is modified, this FSP is effective after June 29, 2005. For all other existing partnerships, the FSP is effective for years beginning after December 15, 2005.

**FSP AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans***

The financial statement presentation and disclosure guidance in paragraphs 8–11 of this FSP, considering the special transition guidance outlined in paragraph 13, is effective for financial statements for annual periods ending after December 15, 2006. The revised definition of fully benefit-responsive in paragraph 7 of this FSP is effective for all investment contracts as of the last day of the annual period ending after December 15, 2006.

**FSP AUG AIR-1, *Accounting for Planned Major Maintenance Activities***

This FSP must be applied to the first fiscal year beginning after December 15, 2006.

## **AICPA**

**SOP 04-2, *Accounting for Real Estate Time-Sharing Transactions***

This SOP is effective for financial statements for fiscal years beginning after June 15, 2005.

**SOP 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts***

This SOP is effective for internal replacements occurring in fiscal years beginning after December 15, 2006.

## **Auditing Standards Board**

**SAS No. 103, *Audit Documentation***

This Statement is effective for audits of financial statements for periods ending on or after December 15, 2006.

**SAS No. 104, *Amendment to Statement on Auditing Standards No. 1, "Codification of Auditing Standards and Procedures" ("Due Professional Care in the Performance of Work")***

This Statement is effective for audits of financial statements for periods beginning on or after December 15, 2006.

**SAS No. 105, *Amendment to Statement on Auditing Standards No. 95, "Generally Accepted Auditing Standards"***

This Statement is effective for audits of financial statements for periods beginning on or after December 15, 2006.

**SAS No. 106, *Audit Evidence***

This Statement is effective for audits of financial statements for periods beginning on or after December 15, 2006.

**SAS No. 107, *Audit Risk and Materiality in Conducting an Audit***

This Statement is effective for audits of financial statements for periods beginning on or after December 15, 2006.

**SAS No. 108, *Planning and Supervision***

This Statement is effective for audits of financial statements for periods beginning on or after December 15, 2006.

**SAS No. 109, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement***

This Statement is effective for audits of financial statements for periods beginning on or after December 15, 2006.

**SAS No. 110, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained***

This Statement is effective for audits of financial statements for periods beginning on or after December 15, 2006.

**SAS No. 111, *Amendment to Statement on Auditing Standards No. 39, "Audit Sampling"***

This Statement is effective for audits of financial statements for periods beginning on or after December 15, 2006.

**SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit***

This Statement is effective for periods ending on or after December 15, 2006.

**SAS No. 113, *Omnibus 2006***

The amendments in this Statement related to SAS No. 102 and SAS No. 109 are effective for audits of financial statements for periods beginning on or after December 15, 2006. The amendments related to SAS No. 103 are effective for audits of financial statements for periods ending on or after December 15, 2006.

**SSAE No. 14, *SSAE Hierarchy***

This Statement is effective when the subject matter or assertion is as of or for a period ending on or after December 15, 2006.

**Conforming Amendments, Chapter 5, *"Reporting on an Entity's Internal Control Over Financial Reporting" (AT 501) of Statement on Standards for Attestation Engagements No. 10, "Attestation Standards: Revision and Recodification"***

These conforming changes are effective when the subject matter or assertion is as of or for a period ending on or after December 15, 2006.

## Government Accountability Office

### **Government Auditing Standards:** *Guidance on GAGAS Requirements for Continuing Professional Education*

This guidance is effective for continuing professional education measurement periods beginning on or after June 30, 2005.

## Governmental Accounting Standards Board

### **GASB Statement No. 43,** *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

Plans in which the sole or largest participating employer has total annual revenues in the first fiscal year ending after June 15, 1999 of:

- \$100 million or more are required to implement this Statement in financial statements for periods beginning after December 15, 2005.
- \$10 million or more but less than \$100 million are required to implement this Statement in financial statements for periods beginning after December 15, 2006.
- Less than \$10 million are required to implement this Statement in financial statements for periods beginning after December 15, 2007.

### **GASB Statement No. 44,** *Economic Condition Reporting: The Statistical Section*

This Statement is effective for financial statements for periods beginning after June 15, 2005.

### **GASB Statement No. 45,** *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*

Governments with total annual revenues in the first fiscal year ending after June 15, 1999 of:

- \$100 million or more are required to implement this Statement in financial statements for periods beginning after December 15, 2006.
- \$10 million or more but less than \$100 million are required to implement this Statement in financial statements for periods beginning after December 15, 2007.
- Less than \$10 million are required to implement this Statement in financial statements for periods beginning after December 15, 2008.

All component units are required to implement this Statement no later than the same year as the primary government.

### **GASB Statement No. 46,** *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34*

This Statement is effective for financial statements for periods beginning after June 15, 2005.

**GASB Statement No. 47, *Accounting for Termination Benefits***

This Statement is effective for financial statements for periods beginning after June 15, 2005. However, for termination benefits that affect defined benefit postemployment benefits other than pensions, governments should implement Statement No. 47 simultaneously with Statement No. 45.

**GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues***

This Statement is effective for financial statements for periods beginning after December 15, 2006.

**GASB Technical Bulletin No. 2006-1, *Accounting and Financial Reporting by Employers and OPEB Plans for Payments From the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D***

This Statement was effective on June 30, 2006, except for portions of answers pertaining specifically to measurement, recognition, or required supplementary information requirements of Statement No. 43, or Statement No. 45. Those provisions should be applied simultaneously with the implementation of Statement No. 43 or Statement No. 45.

## U.S. Securities and Exchange Commission

**Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements***

This SAB is effective for annual financial statements covering the first fiscal year ending after November 15, 2006.

**Release No. 33-8618, *Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports of Companies that are not Accelerated Filers***

Under this Final Rule, a public company that is not required to file annual and quarterly reports on an accelerated basis (i.e., a non-accelerated filer) now must first comply with Section 404 of the Sarbanes-Oxley Act of 2002 for its first fiscal year ending on or after July 15, 2007. A foreign private issuer that is an accelerated filer and that files annual reports on Form 20-F or Form 40-F must begin to comply with the internal control over financial reporting and related requirements in the annual report for its first fiscal year ending on or after July 15, 2006. Note: Under Proposed Rule 33-8731, a non-accelerated filer would not be required to provide management's report on internal control over financial reporting until it files an annual report for a fiscal year ending on or after December 15, 2007, and the auditor's attestation report on internal control over financial reporting would not be required until a non-accelerated filer files an annual report for a fiscal year ending on or after December 15, 2008.

**Release No. 33-8644, *Final Rule: Revisions to Accelerated Filer Definition and Accelerated Deadlines for Filing Periodic Reports***

Under this Final Rule, periodic report filing deadlines were changed as follows:

- Large accelerated filers, as defined, will be subject to a 60-day Form 10-K annual report deadline starting in fiscal years ending on or after December 15, 2006, and to a 75-day deadline until then;
- Large accelerated filers, as defined, will be subject to a 40-day Form 10-Q quarterly report deadline;
- Accelerated filers, as redefined, will be subject to a 75-day Form 10-K annual report deadline and a 40-day Form 10-Q quarterly report deadline.

## Public Company Accounting Oversight Board

### **Auditing Standard No. 4, *Reporting on Whether a Previously Reported Material Weakness Continues to Exist***

This Standard was effective February 6, 2006.

#### **Rule 3521, *Contingent Fees***

Rule 3521 will not apply to contingent fee arrangements that were paid in their entirety, converted to fixed fee arrangements, or otherwise unwound before June 18, 2006.

#### **Rule 3522, *Certain Tax Services***

Rule 3522 will not apply to tax services that were completed by a registered public accounting firm no later than June 18, 2006.

#### **Rule 3523, *Tax Services for Certain Persons in Financial Reporting Oversight Roles***

Rule 3523 will not apply to tax services being provided during the professional engagement period pursuant to an engagement in process on April 19, 2006, provided that such services are completed on or before October 31, 2006.

When a public accounting firm is first engaged, Rule 3523 will not apply to tax services provided on or before April 30, 2007, when those services are provided during the audit period and are completed before the professional engagement period begins.

#### **Rule 3524, *Audit Committee Pre-approval of Certain Tax Services***

Rule 3524 will not apply to any tax service pre-approved on an engagement-by-engagement basis before June 18, 2006. With respect to tax services provided to audit clients whose audit committees pre-approve tax services pursuant to policies and procedures, Rule 3524 will not apply to any such tax service that is begun by April 20, 2007.

## International Accounting Standards Board

### **IFRS 6, *Exploration for and Evaluation of Mineral Resources***

Entities must apply IFRS 6 for annual periods beginning on or after January 1, 2006.

**IFRS 7, *Financial Instruments: Disclosures***

Entities must apply IFRS 7 for annual periods beginning on or after January 1, 2007.

**IFRS 8, *Operating Segments***

IFRS 8 applies to the annual financial statements for periods beginning on or after January 1, 2009.

**IFRIC 4, *Determining whether an Arrangement contains a Lease***

Entities must apply IFRIC 4 for annual periods beginning on or after January 1, 2006.

**IFRIC 5, *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds***

Entities must apply IFRIC 5 for annual periods beginning on or after January 1, 2006.

**IFRIC 6, *Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment***

Entities must apply IFRIC 6 for financial periods beginning on or after December 1, 2005.

**IFRIC 7, *Applying the Restatement Approach under IAS 29, "Financial Reporting in Hyperinflationary Economies"***

Entities must apply IFRIC 7 for annual periods beginning on or after March 1, 2006.

**IFRIC 8, *Scope of IFRS 2***

Entities must apply IFRIC 8 for annual periods beginning on or after May 1, 2006.

**IFRIC 9, *Reassessment of Embedded Derivatives***

Entities must apply IFRIC 9 for annual periods beginning on or after June 1, 2006.

**IFRIC 10, *Interim Financial Reporting and Impairment***

Entities must apply IFRIC 10 for annual periods beginning on or after November 1, 2006.

**IFRIC 11, *IFRS 2—Group and Treasury Share Transactions***

Entities must apply IFRIC 11 for annual periods beginning on or after March 1, 2007.

**IFRIC 12, *Service Concession Arrangements***

Entities must apply IFRIC 12 for annual periods beginning on or after January 1, 2008.

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