April 16, 2010

Memorandum

To: Members of the Board

From: Eileen W. Parlow, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Evaluating Existing Standards: Earmarked Funds - Tab H

MEETING OBJECTIVES

To review options and make decisions on the following:

(A) select filters that would reduce the large number and types of earmarked funds currently being reported,

(B) clarify the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 27, *Identifying and Reporting Earmarked Funds*, regarding the source of funds, and

(C) select a new term for this type of fund, and

(D) approve next steps.

Specific questions 1 – 9 for the Board are set in text boxes.

BRIEFING MATERIAL

This issue paper includes options and recommendations for the above issues.

- Appendix 1 provides citations of the use of the terms “restricted” and “reserved” in GASB and FASB literature.

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The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.
Appendix 2 provides a recap of the Board’s consideration of the concept of “significant” earmarked funds when it considered how to limit the number of funds reported individually during the development of SFFAS 27 (in 2004).

BACKGROUND

Issue A: Filters to reduce the number and/or types of funds being reported
In FY 2009, the consolidated Financial Report of the U.S. Government stated that over 500 earmarked funds were identified and reported in compliance with SFFAS 27. At the February 2010 meeting, the Board reviewed the reporting resulting from SFFAS 27 and determined that agencies appear to be reporting on too many immaterial earmarked funds. Some also questioned whether certain types of funds needed to be included in “earmarked funds” to meet the objectives of SFFAS 27. The Board directed staff to develop potential filters that could reduce the number and types of earmarked funds being reported on.

Issue B: Clarification needed
At the February 2010 meeting, the members noted that some agencies may be misunderstanding the definition of earmarked funds. Staff has identified text in SFFAS 27 that could be amended for clarity.

Issue C: Terminology
Also at the February 2010 meeting, the Board concurred that the name “earmarked funds” is causing confusion and possibly even misapplication of SFFAS 27 due to confusion of earmarked collections with earmarked spending. Accordingly, the Board directed staff to develop alternative terms for this type of fund.

Issue D: Next steps
The Board will address the next steps for this project.
Issue A: Options to reduce the number of funds reported as earmarked funds

At the February 2010 Board meeting, the members agreed that the number of earmarked funds being reported should be greatly reduced and that only the most important funds should be reported on. Members identified several potential options for reducing the number of earmarked funds, such as utilizing an existing filter for funds to be reported individually, and a concept of “major funds” using percentage thresholds. Member also suggested that principle-based filters be developed.

Staff has identified the following types of potential filters. The options are not intended to be mutually exclusive.

- Category 1: Principle-based filters to exclude certain types of earmarked funds.
- Category 2: Materiality-type filters that are based upon (a) existing broad requirements in SFFAS 27 or (b) a new concept of “major funds.”
Category 1: Principle-based filters

SFFAS 27’s criteria result in a high number of funds being classified as earmarked but this outcome was anticipated when SFFAS 27 was issued. At the time, a GAO study (GAO-01-199SP) found over 390 funds considered to be potential earmarked funds. There are two different reasons to try to reduce the number of funds qualifying as earmarked – one is that some funds classified as “earmarked” need not be included to meet the objectives of SFFAS 27, and two is that members wish to reduce the cost of SFFAS 27 reporting by focusing on individually material funds. At the February Board meeting, it was difficult for staff to discern which reason was most compelling to members. However, several Board members supported principle-based filters and several supported materiality based filters such as a “major-funds” approach.

Presumably, principle-based filters would focus on characteristics of funds currently meeting the earmarked fund criteria but which lead the members to believe the funds could be excluded without significantly compromising the SFFAS 27 objectives. For example, SFFAS 27 explains its exclusion of intragovernmental funds as follows (underline added):

57. Although intragovernmental funds may meet the criteria of the definition of an earmarked fund, the Board does not believe intragovernmental funds warrant special accountability to the public because these funds conduct business-type operations primarily within and between Government agencies. Intragovernmental balances are eliminated in the consolidation process in the preparation of the U.S. Government-wide financial statements.

The basis for conclusions of SFFAS 27 described the two main objectives of the earmarked funds requirements, special accountability and effect on net position as follows (underline added):

54. All earmarked funds have characteristics that justify special accountability. While many Government programs raise implied commitments for the future, there is a more explicit commitment associated with the statutory establishment of earmarked funds. The Government raises an expectation on the part of the public that the Government will use the amounts collected from specific sources and accumulated in earmarked funds for their stated purpose. There is often a direct link between the source of fund revenues and designated activities, benefits or purposes in an effort to charge beneficiaries or users for benefits received. Resource inflow is accounted for separately from general tax receipts, allowing the program’s status to be more easily examined. Many earmarked funds receive permanent appropriations in an amount equal to these inflows that become available without recurrent action by Congress through annual appropriations.

Effect on Net Position

59. Special accountability for earmarked funds is of increasing importance because the amount of revenue directed to earmarked funds has increased dramatically over the past two decades. It now constitutes a much greater proportion of the Federal budget. Just
60. In addition, the invested balances of earmarked funds have grown significantly over the past two decades. Debt held by Government accounts was approximately $2.85 trillion in 2003, a twelve-fold increase from 1983. (footnote omitted)

61. Most of these balances are invested in Treasury securities. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general government purposes. Treasury securities are issued to the earmarked fund as evidence of its receipts. Treasury securities are an asset to the component entity and a liability to the U.S. Treasury. Because the component entity and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

62. Treasury securities provide the component entity with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the component entity requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures. The investments in Treasury securities (an asset) held by the various earmarked funds and the liability of the U.S. Treasury to redeem the securities are treated as intragovernmental eliminations when the consolidated U.S. Government-wide financial statements are prepared. Therefore, the consolidated net position of the Federal Government reported on the U.S. Government-wide financial statements does not include the effect of the claim on the U.S. Treasury that the various funds hold, just as the consolidated net position does not include the effect of other intragovernmental claims. Instead, the U.S. Government-wide financial statements include the cumulative results of operations of earmarked funds – currently a large positive balance – as an offset against the cumulative results of operations of the general fund – currently a large negative balance. The result is that the financing provided by earmarked fund operations to general fund operations – which would otherwise be financed through the issuance of debt to the public, tax increases or other financing sources – is not shown on the face of the U.S. Government Balance Sheet.

63. This standard requires component entities to show the total amount of cumulative results of operations attributable to earmarked funds on the Statement of Changes in Net Position and on the Balance Sheet. The U.S. Government-wide financial statements are subject to the same requirement, except that the U.S. Government-wide financial statements include the U.S. Government Statement of Operations and Changes in Net Position instead of the Statement of Changes in Net Position. Net position at the component level is composed of unexpended appropriations and cumulative results of operations. Since unexpended appropriations are not applicable at the Government-wide level, net position equals cumulative results of operations. Under this standard the financial statements would thus present – in a transparent manner – the cumulative financing provided by earmarked funds to the general fund that will need to be repaid in order to use earmarked funds for the designated activities, purposes or benefits.
With these objectives in mind, staff reviewed the descriptions of funds in agency notes (see February briefing memo, attachment 2) and considered whether any characteristics suggested a fund should not be considered “earmarked” despite meeting the existing criteria. (Note that certain funds might be excluded if the definition is clarified as suggested by staff at page 23 of this memo. No filter is proposed for these funds since they would be excluded by definition.)

Staff has identified the following potential principle-based filters:

A. Deferred Compensation Funds
B. Business-Type Activities
C. Deferred Revenue Funds
D. Pass-through Account Funds
E. Excluding Non-Tax Revenue
Principle-Based Filter A: Deferred Compensation Funds - Exclude funds used to finance deferred compensation for federal civilian or military employees such as pensions, survivor benefits, separation incentives, or other post-employment benefits.

Funds covering deferred compensation are diverse and include funds:

- for defined-benefit pensions, health care, survivor benefits
- financed by general fund appropriations, fees transferred from other agencies, and/or employees

One common characteristic of these funds is that such benefits generate long-term liabilities once necessary conditions are met. For many of these funds, standards such as SFFAS 5, as amended, also result in significant disclosures so that the special accountability for employee contributions described generally in par. 54 of SFFAS 27 (see above) is provided. Thus the full liability to be met by the government—whether through future general fund receipts, borrowing or additional participant contributions—is recognized. So, information about the cumulative results of operations for deferred compensation accounts is not needed to reveal “the cumulative financing provided by earmarked funds to the general fund that will need to be repaid in order to use earmarked funds for the designated activities, purposes or benefits” as desired in paragraph 63 of SFFAS 27. Such cumulative financing does not exist and any financing needed to recover employee contributions is incorporated in the recognized liability.

### Box 1: OPM FY2009 Note 8 Describing Sources of Revenue for Deferred Compensation Funds

**Sources of Revenue or Other Financing Sources.**

The following describes the sources of revenue and financing sources for OPM’s earmarked funds. Earmarked funds’ revenues represent both inflows of resources to the Government (contributions by participants) as well as intragovernmental flows (contributions by employing agencies). Both CSRS participants and their employing agencies are required by statute to make contributions to CSRS coverage. Since the combined 14.0 percent of pay does not cover the service cost of a CSRS benefit, to lessen the shortfall, the Treasury is required by statute to transfer an amount annually from the General Fund of the United States to the CSRDF. Both FERS participants and their employing agencies are required by statute to make contributions for FERS coverage.

The Health Benefits Program (with the exception of the PSRHB Fund) is funded on a “pay-as-you-go” basis, with both participants and their employing agencies making contributions on approximately a one-quarter to three-quarters basis (OPM contributes the “employer” share for Retirement Program annuitants via an appropriation). P.L. 109-435 requires the USPS to make scheduled payment contributions to the new PSRHB Fund ranging from approximately $5.4 to $5.8 billion per year from fiscal year 2007 through fiscal year 2016 in accordance with the legislation. Thereafter, the USPS will make annual payments of the sum of the normal cost payment. However, P.L. 111-68, approved 10/01/09, Division B — Continuing Appropriations Resolution 2010 made significant changes to the funding requirements of P.L. 109-435. Sec. 164 amends P.L. 109-435 such that the USPS contribution for FY 2009 is $1.4 billion rather than $5.4 billion.

The Life Insurance Program is funded on a “pay-as-you-go” basis, with both participants and their employing agencies making contributions to Basic life insurance coverage, generally on a two-thirds to one-third basis. (OPM contributes the “employer” share for Retirement Program annuitants via an appropriation.)
Staff has identified the following pros and cons for excluding deferred-compensation funds for civilian or military employees.

<table>
<thead>
<tr>
<th>Pro</th>
<th>Con</th>
</tr>
</thead>
<tbody>
<tr>
<td>These funds are subject to significant disclosures by existing standards such as SFFAS 5. Accordingly, the disclosures for individual funds required by SFFAS 27 are redundant.</td>
<td>Exempting these funds may imply to some that there is a lesser responsibility for the government to use such funds in accordance with legislated purposes.</td>
</tr>
<tr>
<td>These funds do not provide cumulative financing to the general fund that must be repaid, and accordingly do not meet the objective noted in par. 63 of SFFAS 27.</td>
<td></td>
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</tbody>
</table>

**Staff recommendation:**

Staff recommends that deferred compensation funds for federal civilian and military employees be excluded from earmarked funds reporting.

**Question 1 for the Board:**

Does the Board agree with staff recommendation to exclude deferred compensation funds for federal civilian and military employees from earmarked funds reporting?
Principle-Based Filter B: Business-type Activities — Exclude funds financed through user fees where the annual user fees are:

- permitted to be retained by the component entity for use in providing future goods and services,
- the primary financing source for the specific program providing the goods or services generating the user fee, and
- routinely [or ‘generally’] consumed in annual operations (Terms such as “routinely” pose an implementation challenge. The goal of the principle is to exclude only business-type activities not accumulating resources that could be drawn on in future years. A test could be included such as “a positive net cost of operations greater than 10% of exchange revenue has not resulted in any of the prior five years” or “cumulative results of operations does not exceed the average annual user fees for the past five years.”)

During deliberations on SFFAS 27, the Board considered excluding business-type activities from the earmarked reporting requirements. Ultimately, only intragovernmental business-type activities were excluded. Business-type activities involving the public are diverse including whole organizations as well as programs. For example, the Securities and Exchange Commission (SEC) and the U.S. Patent and Trademark Office (PTO) operate primarily from user fees qualifying as earmarked funds.

For FY 2009 and FY 2008, PTO’s net cost of operations (the amount by which its program costs exceeded its earned revenues) were 2.8% and 1.6% of earned revenues respectively; showing that it operated close to breakeven and was not accumulating funds that could be used to temporarily finance general government operations. In contrast, for FY 2009 and FY 2008, the SEC’s net cost of operations were 11.6% and 2.7% of earned revenues respectively. Also, its cumulative results of operations were $6.1 billion and $5.9 billion respectively for those years.

These two examples illustrate diversity in setting user fees – some closely align with gross cost and some variation over time may occur. For that reason, staff structured the filter to allow for a test to capture as earmarked funds those business-type activities that may have large cumulative results of operations. (However, the Board could omit that aspect of the filter if it wishes to exclude business-type activities even if they accumulate large balances.)

The rationale for excluding business-type activities meeting the above filters is that they are not expected to materially contribute the type of financing SFFAS 27 was intended to address. So, the effect on net position objective could still be met even if these types of funds were excluded. With respect to the special accountability objective of SFFAS 27, the Board may find that business-type activities provide a service in

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2 Note: Principle-Based Filter B is a narrower version of Principle-Based Filter E, which would exclude non-tax revenue.
3 To qualify as user fees, the revenue must be classified as exchange revenue as defined in SFFAS 7.
Staff has identified the following pros and cons for excluding business-type activities that do not accumulate large positive cumulative results of operations.

<table>
<thead>
<tr>
<th>Pro</th>
<th>Con</th>
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</thead>
<tbody>
<tr>
<td>The SFFAS 7 distinction between exchange and non-exchange revenue is well established. Only funds receiving exchange revenue would be evaluated against the remaining tests (e.g., allowed to retain the exchange revenue).</td>
<td>FASAB general counsel believes that distinctions between “user fees” and other types of revenue such as taxes would depend upon the application of certain definitions and criteria that may be applied inconsistently across government or for different purposes. Such applications are often difficult and would likely require significant involvement of agencies’ general counsel. (For example, under one of the CBO’s definitions, the CBO refers to user fees as a “beneficiary-based tax.”)</td>
</tr>
<tr>
<td>For business-type activities that do not accumulate large positive cumulative results of operations, once the exchange revenue is earned, there is no need for special accountability for such funds.</td>
<td>The filter is partially based upon historical analysis of cumulative results of operations and may be burdensome for agencies with large numbers of business-type funds.</td>
</tr>
<tr>
<td>The filter is partially based on materiality of cumulative results of operations. Requiring quantitative analysis of historical data makes this filter not completely principle-based.</td>
<td></td>
</tr>
</tbody>
</table>

**Staff recommendation:**
Staff recommends that this filter should be further researched by consulting with federal agencies most likely to be impacted. This could be done by the formation of a task force to perform informal field testing by federal agencies that currently report earmarked funds activity.

**Question 2 for the Board:**
Does the Board agree with staff recommendation to perform further field research for this potential filter?

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4 That is, accountability beyond that expected of all government funds.
Principle-Based Filter C: Deferred Revenue – Exclude funds used to account for amounts advanced by a non-federal entity to finance a specific approved project (e.g., deferred revenue).

Staff found three examples of project funding retained in an earmarked fund:

Department of Energy: The Department of Energy’s Nuclear Waste Fund is funded by fees on electricity generated and sold by civilian nuclear power reactors. In FY 2009, the Department of Energy reported $26 billion in assets, with an equal and offsetting $26 billion in deferred revenue.

Environmental Protection Agency: Miscellaneous Contributed Funds Trust Fund, authorized in the Federal Water Pollution Control Act (Clean Water Act) as amended P.L. 92-500, includes gifts for pollution control programs that are usually designated for a specific use by donors and/or deposits from pesticide registrants to cover the costs of petition hearings when such hearings result in unfavorable decisions to the petitioner.

Department of Defense: Rivers and Harbors Contributed and Advance Funds, 33 USC 701h, 702f, and 703. Whenever any state or political subdivision offers to advance funds for a flood control project duly adopted and authorized by law, the Secretary of the Army may, in his discretion, receive such funds and expend them in the immediate prosecution of such work. The funding may be used to construct, improve, and maintain levees, water outlets, flood control, debris removal, rectification and enlargement of river channels, etc. in the course of flood control and river and harbor maintenance.

Staff has identified the following pros and cons for excluding funds used to account for amounts advanced by non-federal entities for specific projects.

<table>
<thead>
<tr>
<th>Pro</th>
<th>Con</th>
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<tbody>
<tr>
<td>A major focus of SFFAS 27 (paragraphs 59-63) is to report the net position of earmarked funds to illustrate the cumulative funding of earmarked funds to the general fund that will need to be repaid (see pages 4 - 6 of this document for citation), However, when earmarked funds report large balances of deferred revenue, the net position of such funds may be near zero. Accordingly, the</td>
<td>In long-term funds that involve large, long-term projects, such as the Nuclear Waste Fund, large balances, in particular large investments in Treasury securities, could accumulate. Such investments may provide financing for general government but must be repaid when the investments in Treasury securities are liquidated in order to spend the funds in accordance with the fund’s legislated purpose. Such</td>
</tr>
</tbody>
</table>

5 IN FY 2009, the Dept. of Energy reported $26.4 billion in investments in Treasury securities for the Nuclear Waste Fund, along with the note on investments required by SFFAS 27: The Federal Government does not set aside assets to pay for expenditures associated with the funds for which the Department holds Treasury securities. These Treasury securities are an asset to the Department and a liability to Treasury. Because the Department and Treasury are both parts of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a
<table>
<thead>
<tr>
<th>separate reporting of earmarked funds net position for such funds does not accomplish this objective</th>
<th>investments in Treasury securities were the focus of the reporting objectives for earmarked funds explained in paragraphs 59-63 of SFFAS  27</th>
</tr>
</thead>
<tbody>
<tr>
<td>When funds collected have already been committed for specific approved projects, no special accountability is warranted.</td>
<td>In some cases, there might be implementation problems regarding which funds are committed for specific projects and which funds are retained for future projects</td>
</tr>
<tr>
<td>Many advances are short-term and unlikely to accumulate large balances.</td>
<td>Staff only identified three such funds when reviewing the specifically identified funds. This filter may be burdensome to apply and not lead to much change.</td>
</tr>
</tbody>
</table>

**Staff analysis and recommendation**

Staff believes that a distinction based upon whether funds are committed for specific identified projects would present major implementation difficulties for agencies. In addition, it is possible for such funds to accumulate large long-term investments in Treasury securities. Accordingly, staff does not recommend excluding advances/deferred revenue.

**Question 3 for the Board:**

Does the Board agree with staff recommendation not to exclude advances/deferred revenue?
**Principle-Based Filter D: Pass-through Accounts** – Exclude funds that receive revenue and other financing sources in one fiscal year and have a policy in place to distribute all funds in the following fiscal year.

Such funds are unlikely to accumulate balances. Example: Payments to States, Flood Control Act of 1954, 33 USC 701c-3. Seventy-five percent of all funds received and deposited from the leasing of lands acquired by the United States for flood control, navigation, and allied purposes (including the development of hydroelectric power) are returned to the state in which the property is located. USACE collects lease receipts into a receipt account. Funds are appropriated for the amount of receipts the following fiscal year. The funds may be expended by the states for the benefit of public schools and public roads of the counties in which such property is situated, or for defraying any of the expenses of county government.

Staff has identified the following pros and cons for this potential filter.

<table>
<thead>
<tr>
<th>Pro</th>
<th>Con</th>
</tr>
</thead>
<tbody>
<tr>
<td>Such funds are unlikely to accumulate large balances over time. Since these funds are unlikely to represent financing to the general fund that will need to be repaid, including such funds will not support the reporting objective in par. 63 of SFFAS 27.</td>
<td>The filter requires that policy be evaluated and policy may change from year to year. This may be burdensome for agencies with large numbers of potential pass-through accounts.</td>
</tr>
<tr>
<td>Special accountability is short-term.</td>
<td>Staff has only found one such fund. This filter may not result in a significant reduction in burden.</td>
</tr>
</tbody>
</table>

**Staff recommendation:**

Staff recommends that this filter should be further researched by consulting with federal agencies most likely to be impacted.

**Question 4 for the Board:**

Does the Board agree with staff recommendation to perform further field research for a potential filter relating to “deferred payment”?
Principle-based Filter E: Exclude Non-Tax Revenue\(^6\) – Exclude funds that are not financed by earmarked taxes.

At the February meeting, one member suggested that revenues that are not taxes might be excluded and that staff should consult with FASAB general counsel on feasibility of such a filter.

FASAB general counsel believes that such a distinction would depend upon the application of certain definitions and criteria that may be applied inconsistently across government or for different purposes. Such applications are often difficult and would likely require significant involvement of agencies’ general counsel. Accordingly, staff believes that attempting to limit reporting on earmarked funds on the basis of a distinction between taxes and other types revenues would likely involve serious implementation difficulties.

FASAB general counsel has noted that there is a brief, but helpful discussion of user fees/user charges in the Analytical Perspectives chapter of the Budget of the U.S. Government, beginning on page 200 in the FY 2011 Budget request. This discussion provides some amounts of "user fees" collected by the government in a given year, but it also points out that there are various definitions for the term "user fee" (or "user charge"). For example, under one of CBO's definitions, CBO refers to user fees as a "beneficiary-based tax."

FASAB general counsel has also noted that in addition to the different labels applied to various types of receipts under the multitude of statutes that authorize the receipts, there are legal distinctions between taxes and fees that may or may not be relevant to the earmarked fund standard. For example, for some constitutional purposes, a tax includes charges that exceed the cost incurred by the agency that provides a "benefit" to the person being charged. However, the statute that authorizes the charge may refer to the charge as a "fee." In any case, the variety of statutes that authorize both fees and taxes may or may not specify where the receipt is to be deposited and how it is to be accounted for. Accordingly, although there may be a large number of statutes that authorize "fees" and the agencies may track such receipts as "fees," there are a number of variables that would have to be considered in an accounting standard to set clear criteria on how a fee vs. tax "filter" would be applied.

**Staff analysis and recommendation:**
Due to the implementation issues identified above, staff does not recommend a filter of excluding non-tax revenue.

**Question 5 for the Board:**
Does the Board agree with staff recommendation not to exclude non-tax revenue?

\(^6\) Note: Principle-Based Filter E is a broader version of Principle-Based Filter B, which would exclude business-type activities.
**Category 2: Materiality-type filters that are based upon**

(A) existing broad guidance in SFFAS 27 for funds to be reported on individually, or

(B) a new concept of “major funds”

**Materiality-type filter A: based on existing broad guidance in SFFAS 27**

“Earmarked funds” would be limited to those funds qualifying to be reported individually per SFFAS 27. Staff researched the FY 2009 financial statements of the largest federal agencies and compared the total earmarked funds reported with the funds reported individually. Of the 380 earmarked funds reported by the largest federal agencies, only 86 were reported individually.

The existing criteria for reporting funds individually are in paragraph 24 of SFFAS 27:

[24] Selecting earmarked funds to be presented individually requires judgment. The preparer should consider both quantitative and qualitative criteria. Acceptable criteria include but are not limited to: quantitative factors such as the percentage of the reporting entity’s earmarked revenues or cumulative results of operations from earmarked funds; and qualitative factors such as whether an earmarked fund is of immediate concern to constituents of the fund, whether it is politically sensitive or controversial, whether it is accumulating large balances, or whether the information provided in the financial statements would be the primary source of financial information for the public.
Table 1 below summarizes the earmarked funds reported individually by the largest federal agencies.

Table 1: Summary of Largest* Federal Agency Earmarked Funds Disclosures, filtered by funds reported individually

(Dollars in Millions)

<table>
<thead>
<tr>
<th>Reporting Entity</th>
<th>Total Number of Earmarked Funds Reported</th>
<th>Total Number of Earmarked Funds Reported Individually</th>
<th>FY 2009 All Earmarked Funds</th>
<th>FY 2009 Earmarked Funds Reported Individually</th>
</tr>
</thead>
<tbody>
<tr>
<td>USDA</td>
<td>59</td>
<td>14</td>
<td>914</td>
<td>609</td>
</tr>
<tr>
<td>DOC</td>
<td>15</td>
<td>7</td>
<td>15,045</td>
<td>14,958</td>
</tr>
<tr>
<td>DoD **</td>
<td>18</td>
<td>2</td>
<td>(1,342,853)</td>
<td>(1,252,260)</td>
</tr>
<tr>
<td>Education</td>
<td>2</td>
<td>0</td>
<td>8.0</td>
<td>0</td>
</tr>
<tr>
<td>Energy ****</td>
<td>4</td>
<td>4</td>
<td>(4,668)</td>
<td>(5,824)</td>
</tr>
<tr>
<td>EPA</td>
<td>9</td>
<td>3</td>
<td>7,086</td>
<td>7,085</td>
</tr>
<tr>
<td>FCC</td>
<td>1</td>
<td>1</td>
<td>6,051</td>
<td>6,051</td>
</tr>
<tr>
<td>GSA***</td>
<td>9</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>HHS</td>
<td>4</td>
<td>1</td>
<td>340,303</td>
<td>336,342</td>
</tr>
<tr>
<td>DHS</td>
<td>31</td>
<td>4</td>
<td>(15,507)</td>
<td>(12,548)</td>
</tr>
<tr>
<td>HUD</td>
<td>5</td>
<td>5</td>
<td>26,354</td>
<td>26,354</td>
</tr>
<tr>
<td>DOI</td>
<td>119</td>
<td>9</td>
<td>54,574</td>
<td>49,588.</td>
</tr>
<tr>
<td>DOJ</td>
<td>6</td>
<td>6</td>
<td>5,653</td>
<td>5,653</td>
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<tr>
<td>DOL</td>
<td>5</td>
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<td>4,563</td>
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<td>NASA</td>
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<td>OPM</td>
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<td>NSF</td>
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<tr>
<td>OPM</td>
<td>3</td>
<td>3</td>
<td>(989,134)</td>
<td>(989,134)</td>
</tr>
<tr>
<td>RRB</td>
<td>7</td>
<td>7</td>
<td>24,020</td>
<td>24,020</td>
</tr>
<tr>
<td>SBA</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>SEC****</td>
<td>1</td>
<td>1</td>
<td>6,058</td>
<td>6,058</td>
</tr>
<tr>
<td>SSA</td>
<td>4</td>
<td>2</td>
<td>2,456,910</td>
<td>2,456,816</td>
</tr>
<tr>
<td>State</td>
<td>14</td>
<td>4</td>
<td>(910)</td>
<td>(810)</td>
</tr>
<tr>
<td>DOT</td>
<td>22</td>
<td>3</td>
<td>23,695</td>
<td>14,909</td>
</tr>
<tr>
<td>Treasury</td>
<td>28</td>
<td>3</td>
<td>41,853</td>
<td>41,807</td>
</tr>
<tr>
<td>VA</td>
<td>13</td>
<td>4</td>
<td>998</td>
<td>998</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>380</td>
<td>86</td>
<td>661,369</td>
<td>735,246</td>
</tr>
</tbody>
</table>

* This table only displays the largest federal agencies. Overall, there are over 500 funds government-wide that meet the definition of earmarked funds.

** This table does not examine whether agencies have correctly identified certain funds as meeting the definition of earmarked funds in SFFAS 27.

***GSA FY 2009 PAR states that its FY 2009 Earmarked Funds were immaterial and disclosed only the total Fund Balance with Treasury of $163 million for all GSA’s earmarked funds.

**** The Energy Dept. and the SEC do not state how many earmarked funds they have
**Staff analysis of materiality-type filter A**

Staff has identified the following pros and cons for this filter:

<table>
<thead>
<tr>
<th>Pro</th>
<th>Con</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agencies are already required by SFFAS 27 to report certain funds individually. Accordingly, a filter based upon these existing criteria would not impose any new burden on agencies.</td>
<td>This filter alone may not entirely eliminate reporting of funds that are immaterial from the government-wide perspective. For example, in Table 1 above, the USDA clearly has a lower materiality threshold than many other agencies.</td>
</tr>
<tr>
<td>The criteria for funds to be reported individually are well-established in SFFAS 27. Agencies have reported no difficulties in making decisions on which funds to report individually.</td>
<td>Agencies would still be required to track and evaluate each earmarked fund against the existing criteria. Accordingly, cost savings might be minimal.</td>
</tr>
<tr>
<td>Using this filter would greatly reduce the number of immaterial funds being reported. For example, among the largest agencies shown in Table 2 above, it would reduce the number of funds reported from 380 to 86.</td>
<td>The cumulative amount of earmarked funds not reported individually might still be material on the agency level. In addition, although the odds are remote, the cumulative amount of earmarked funds not reported on by an agency may become material in the future on the government-wide level.</td>
</tr>
</tbody>
</table>

Per the analysis in Table 1 above, amending SFFAS 27 to require reporting only on earmarked funds that are significant enough to be reported on individually is likely to greatly reduce the number of less-material funds being reported on. However, there is a large variation of materiality among agencies. For example, the USDA reports on 14 individual funds, even though the total net position of those 14 funds is the smallest amount (other than zero) of all the major agencies listed in Table 1 above.

This filter would utilize existing guidance for which agencies have not informed staff of any implementation difficulties. However, staff recommends that the Board consider an alternative filter (see filter B below) that might provide a more uniform materiality threshold among agencies for this reporting.

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7 "Reported" in this context means classified as earmarked funds and added to the government-wide earmarked funds net position. All earmarked funds not subject to the reporting requirements of SFFAS 27 would still be included in the financial statements of the agency and the CFR. But their balances and flows would be excluded from the earmarked funds category and included in the “all other funds” category.
**Materiality-type filter (B) A new concept of “major funds” could be defined in terms of percentages**

At the February Board meeting some members suggested that an additional filter could be the concept of “major” earmarked funds, which could be defined as more than a certain percentage of selected items such as receipts, payments or other balances.

A similar concept of “major funds” is developed in Governmental Accounting Standards Board (GASB) literature and will be discussed within the context of this option. Paragraph 76 of GASB Statement 34 defines major funds in terms of percentages of assets, liabilities, revenues or expenditures/expenses. Specifically, a major fund as defined by GASB needs to have both (a) 10% of assets, liabilities, revenues or expenditures/expense for the respective category of funds, AND (b) 5% of the entity’s total. GASB 34 also provides for an exception for any other funds that management thinks are important enough to be reported as major funds.8

Staff has performed a rough estimate of how the concept of classifying only “major funds” using GASB’s criteria might have impacted FY 2009 reporting of earmarked funds by agencies.

Note: Since staff does not have detailed records of earmarked funds that were aggregated into “other” by agencies, Table 2 is a rough estimate that considers only earmarked funds reported individually. However, it is likely that very few, if any, of the funds aggregated by agencies into “other” would be material enough to pass the 10% and 5% tests described above.

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8 GASB’s criteria for major funds govern presentation of individual funds rather than categorization of funds for purposes of tracking a fund category in aggregate. For GASB, non-major funds are presented in aggregate within the appropriate category (e.g., governmental funds).
Table 2: Summary of Largest* Federal Agency Earmarked Funds Disclosures, filtered using “major funds” concept

(Dollars in Millions)

<table>
<thead>
<tr>
<th>Reporting Entity</th>
<th>Total Number of Earmarked Funds Reported</th>
<th>Estimated Total Number of “Major” Earmarked Funds</th>
<th>FY 2009 All Earmarked Funds</th>
<th>FY 2009 Estimated “Major” Earmarked Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>USDA</td>
<td>59</td>
<td>1</td>
<td>914</td>
<td>(2,577)</td>
</tr>
<tr>
<td>DOC</td>
<td>15</td>
<td>3</td>
<td>15,045</td>
<td>14,560</td>
</tr>
<tr>
<td>DoD **</td>
<td>18</td>
<td>2</td>
<td>(1,342,853)</td>
<td>(1,260,334)</td>
</tr>
<tr>
<td>Education</td>
<td>2</td>
<td>0</td>
<td>8.0</td>
<td>0</td>
</tr>
<tr>
<td>Energy ****</td>
<td>4</td>
<td>2</td>
<td>(4,668)</td>
<td>2,045</td>
</tr>
<tr>
<td>EPA</td>
<td>9</td>
<td>2</td>
<td>7,086</td>
<td>6,853</td>
</tr>
<tr>
<td>FCC</td>
<td>1</td>
<td>1</td>
<td>6,051</td>
<td>6,051</td>
</tr>
<tr>
<td>GSA***</td>
<td>9</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>HHS</td>
<td>4</td>
<td>1</td>
<td>340,303</td>
<td>336,342</td>
</tr>
<tr>
<td>DHS</td>
<td>31</td>
<td>1</td>
<td>(15,507)</td>
<td>(19,359)</td>
</tr>
<tr>
<td>HUD</td>
<td>5</td>
<td>2</td>
<td>26,354</td>
<td>26,131</td>
</tr>
<tr>
<td>DOI</td>
<td>119</td>
<td>3</td>
<td>54,574</td>
<td>34,488</td>
</tr>
<tr>
<td>DOJ</td>
<td>6</td>
<td>2</td>
<td>5,653</td>
<td>5,539</td>
</tr>
<tr>
<td>DOL</td>
<td>5</td>
<td>1</td>
<td>4,563</td>
<td>10,539</td>
</tr>
<tr>
<td>NASA</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>NRC</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>NSF</td>
<td>1</td>
<td>0</td>
<td>356</td>
<td>0</td>
</tr>
<tr>
<td>OPM</td>
<td>3</td>
<td>2</td>
<td>(989,134)</td>
<td>(986,741)</td>
</tr>
<tr>
<td>RRB</td>
<td>7</td>
<td>6</td>
<td>24,024</td>
<td>24,024</td>
</tr>
<tr>
<td>SBA</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>SEC****</td>
<td>1</td>
<td>1</td>
<td>6,058</td>
<td>6,058</td>
</tr>
<tr>
<td>SSA</td>
<td>4</td>
<td>2</td>
<td>2,456,910</td>
<td>2,456,816</td>
</tr>
<tr>
<td>State</td>
<td>14</td>
<td>1</td>
<td>(910)</td>
<td>(1,513)</td>
</tr>
<tr>
<td>DOT</td>
<td>22</td>
<td>2</td>
<td>23,695</td>
<td>13,633</td>
</tr>
<tr>
<td>Treasury</td>
<td>28</td>
<td>1</td>
<td>41,853</td>
<td>43,646</td>
</tr>
<tr>
<td>VA</td>
<td>13</td>
<td>0</td>
<td>998</td>
<td>0</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>380</td>
<td>36</td>
<td>661,369</td>
<td>716201</td>
</tr>
</tbody>
</table>

* This table only displays the largest federal agencies. Overall, there are over 500 funds government-wide that meet the definition of earmarked funds.

** This table does not examine whether agencies have correctly identified certain funds as meeting the definition of earmarked funds in SFFAS 27.

***GSA FY 2009 PAR states that its FY 2009 Earmarked Funds were immaterial and disclosed only the total Fund Balance with Treasury of $163 million for all GSA’s earmarked funds.

**** The Energy Dept. and the SEC do not state how many earmarked funds they have.
**Staff analysis of materiality-type filter B:**

The analysis in Table 2 shows that the concept of “major funds” is an even more effective filter than funds reported individually because it would likely eliminate the reporting of large numbers of funds as “earmarked” that are individually immaterial. Staff estimates that out of the 380 earmarked funds reported by the largest federal agencies, only about 36 would likely have been reported as “major funds.”

Staff recommends that the concept of “major funds” be used, with similar criteria as GASB, including the exception clause. The exception clause would be helpful for agencies with a large number of funds to evaluate, since management would not have to prove the percentages every year to be justified in designating a fund as a major fund.

One complicating factor is how to address negative balances in applying the definition. For example, in FY 2009, the Dept. of Homeland Security had a total net position of $8.6 billion, and its earmarked funds had a net position of negative $15.5 billion. How could the definition be applied in such a situation – and also in the reverse situation, where the agency total net position is negative but the earmarked fund net position is positive? Staff recommends that absolute values be considered when there are negative balances. (Staff used this general rule for negative balances in performing the analysis displayed in Table 2.)

Staff has identified the following pros and cons for the “major funds” concept in its entirety (percentage tests with exceptions for additions):

<table>
<thead>
<tr>
<th>Pro</th>
<th>Con</th>
</tr>
</thead>
<tbody>
<tr>
<td>The exception clause would enable agencies to avoid annual re-evaluation of numerous funds by management by permitting the inclusion of funds that are or might be near the reporting threshold. (This could even be recommended as an option for agencies.) The exception clause would also allow the inclusion of qualitative rather than quantitative factors considered important by management.</td>
<td>This filter would likely impose additional work burden, in particular when first implemented. (However, this burden might be partly or fully offset by greatly reducing the number of funds classified as “earmarked funds” – in Table 2, an estimate of 36 funds rather than 380.)</td>
</tr>
<tr>
<td>The concept of “major funds” with percentage tests has been established for state and local governments by GASB.</td>
<td>In the past, FASAB has generally avoided setting numerical thresholds for reporting. Some members believe that setting specific thresholds may not be appropriate for a standard-setter.</td>
</tr>
<tr>
<td>Using this filter is likely to greatly reduce the number of individually immaterial funds</td>
<td>The percentage thresholds could only be operationalized at the component level,</td>
</tr>
</tbody>
</table>
Staff recommendation for materiality-type filters A and B:

Staff believes that the objective of a materiality-type filter would be to provide implementation guidance for the “materiality” notice in SFFAS 27 that states: “The provisions of this statement need not be applied to immaterial items.”

Staff believes that a concept of “major funds” should be field-tested with a task force of federal agencies to determine whether it could be the primary materiality-type filter. Staff believes that the existing broad guidelines in SFFAS 27 on selecting funds to be reported individually could also be researched as part of an exception clause to allow management to report on funds that do not meet the materiality threshold but are considered important by management. A task force could also provide staff with feedback on implementation issues with existing requirements on reporting funds individually.

Such field testing would also provide insights as to whether detailed guidance on materiality such as materiality-type filters A and/or B might result in cost savings (including opportunity cost savings) that would allow agencies to make the most efficient and effective use of available resources for financial reporting.

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9 “Reported” in this context means classified as earmarked and subject to additional disclosure. All earmarked funds not subject to the reporting requirements of an amended SFFAS 27 would still be included in the financial statements of the agency and the CFR. But they would be reported as part of “all other funds.”
Question 6 for the Board:

Does the Board agree with staff recommendation that

(a) a task force of federal agencies should informally field-test the potential results of using a “major funds” concept as a primary materiality-type filter, using similar quantitative criteria as GASB’s “major funds.” This concept would also include:

(b) a similar exception clause for funds that management believes are important even if they do not meet the quantitative criteria for “major funds.” The existing SFFAS 27 requirements for funds that should be reported individually could be included as examples of qualitative criteria for management to consider. A task force could also provide staff with feedback on implementation issues with existing requirements on reporting funds individually.
Issue B: Clarify the provisions of SFFAS 27 regarding source of funds

The definition of earmarked funds in SFFAS 27 required “a statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes.” ¹⁰

The definition implied but did not explicitly state that the specifically identified revenues referred to a separate revenue stream from non-federal sources such as individuals or corporations. However, it appears that some clarification is needed.

Staff has drafted the following clarifying language:

At least one source of specifically identified revenue or other financing source must be provided to the federal government by a non-federal source for a fund to qualify as an earmarked fund. Note: In some cases earmarked funds receive amounts, such as certain payroll taxes, that are collected by one agency and transferred or appropriated to another. This internal process does not change the nature of the revenue or other financing source. However, a fund receiving only an appropriation that cannot be tied back to an external source dedicated to the fund’s purpose would not qualify as an earmarked fund.

Staff believes that the above clarifying language would help to prevent misinterpretation of SFFAS 27.

Question 7 for the Board:

Does the Board agree that the above clarifying language would help to prevent misinterpretation of SFFAS 27?

¹⁰ SFFAS 27, paragraph 11 (underline added for emphasis)
**Issue C: Options for a New Term for “Earmarked Funds”**

At the February 2010 Board meeting, the Board decided that the term “earmarked funds” can cause confusion (for both preparers and users of financials statements) between earmarked collections and earmarked spending. Accordingly, the Board directed staff to develop options for renaming this category of funds. Below are seven options for renaming this category of funds, along with pros and cons for each option.

<table>
<thead>
<tr>
<th>Option</th>
<th>Pro</th>
<th>Con</th>
</tr>
</thead>
</table>
| Funds from Dedicated Collections            | • “Funds from Dedicated Collections” is a unique and descriptive term that will not be confused with other commonly used terms.  
  • This term explicitly states the reason for separate reporting (dedicated collections). | • The term “dedicated collections” is not currently used in accounting literature. However, the term “dedicated collections” was used in the past (prior to 2006) and included funds later categorized as earmarked funds and fiduciary activities.  
  • The term could be confused with the budgetary term “offsetting collections.” |
| Dedicated Funds                              | • “Dedicated funds” is a unique and descriptive term that will not be confused with other usages.                        | • This term might imply that appropriated funds financed by the general fund are not dedicated to specific purposes and/or may be used with greater management discretion than really exists. |
| Funds from Restricted Collections           | • “Funds from Restricted Collections” is a descriptive term that will not be confused with other commonly used terms. It explicitly states the reason for separate reporting (restricted collections) | • This term may imply that “other funds” or “unrestricted funds” may be used with greater management discretion than really exists. |
| Restricted Funds                             | • “Restricted funds” would be similar to FASB and GASB term, “restricted funds.”                                        | • This term may imply that “other funds” or “unrestricted funds” may be used with greater management discretion than really exists. |
| Reserved Funds                               | • “Reserved funds” in GASB means legally segregated for a specific future use.  
  • It has a usable negative (unreserved) for “other funds” reporting/display. | • This term may suggest that a reserve of cash or investments exists at the government-wide level. |
Special Accountability, or Specific Accountability Funds

- “Special accountability” (or “specific accountability) is a unique term that will not be confused with other usages.
- It emphasizes “special accountability,” which is a primary basis for this standard.
- This term may imply that a lower level of accountability exists for general and fiduciary funds.

Special Funds

- This term was recommended for “trust funds” by GAO report, “Federal Trust and Other Earmarked Funds,” to encourage consistency in the budget.
- This term differs from the OMB definition of “special funds” by including what OMB calls “trust” and “public enterprise” funds. This could cause confusion.
- This term differs from the term “special funds” used in reporting to Treasury, because the inclusion of exclusion of specific funds in this category is decided by OMB and Treasury. ¹¹

Attached (following staff recommendation) are detailed citations from GASB and FASB for the terms “restricted” and “reserved,” since the terms “restricted” and “reserved” appear in some of the options below.

Staff analysis and recommendation

Based upon the above pros and cons, staff recommends that the new term should be “funds from dedicated collections.” If the Board decides to use the concept of “major funds” for Issue A, the new term should be “major funds from dedicated collections.”

Note on sequencing of issues:
This issue is being presented as the last issue for this agenda topic. However, as the Board reaches consensus on other issues, it may or may not impact the best term for this category of funds. Accordingly, the Board could decide either to
(a) indicate a tentative preference, or
(b) defer a decision until later in the development of this project.
Staff recommends (a) above.

Question 8 (a) and (b) for the Board:
(a) Does the Board wish to indicate a tentative preference for a new term?

(b) If so, does the Board agree with staff recommendation, “funds from dedicated collections,” or “major funds from dedicated collections”?

**Issue D: Next Steps**

Staff proposes the following next steps:

1. Follow up on any action items (such as the formation of a task force) resulting from Issues A-C above,

2. Develop options, pros and cons for the following open items from the February 2010 meeting:
   - (a) disclosure versus display on the face of the balance sheet and statement of changes in net position, and
   - (b) how to address “mixed funding” situations, e.g. majority or a threshold percentage of funds from dedicated collections.
   - (c) any other action item identified at the April meeting.

**Question 9 (a) and (b) for the Board:**

(a) Does the Board approve the above “next steps”?
(b) Are there any other action items for staff?
Appendix 1: Citations from GASB and FASB on the Terms “Restricted” and “Reserved”

A. Citations from GASB

“Restricted”

The term “restricted” is used in relation to the net assets for state and local government reporting. Per GASB Statement No. 34 (bold added):

34. Net assets should be reported as restricted when constraints placed on net asset use are either: (24)
   a. Externally imposed by creditors (such as through debt covenants),
      grantors, contributors, or laws or regulations of other governments
   b. Imposed by law through constitutional provisions or enabling legislation.

Enabling legislation, (25) as the term is used in this Statement, authorizes the government to assess, levy, charge or otherwise mandate payment of resources (from external resources providers) and includes a legally enforceable requirement that those resources by used only for the specific purposes stipulated in the legislation.

Footnotes to paragraph 34:
24. Because different measurement focuses and bases of accounting are used in the statement of net assets than in governmental fund requirements, and because the definition of reserved includes more than resources that are restricted (as discussed in this paragraph), amounts reported as reserved fund balances in governmental funds will generally be different from amounts reported as restricted net assets in the statement of net assets.
25. Enabling legislation also includes restrictions on net asset use established by a governmental utility’s own governing board when that utility reports based on FASB Statement 71.

“Reserved”

GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, changed the category of “reserved” to “restricted” for the reasons explained below in the Summary section of GASB 54 (bold added)

The requirements in this Statement will improve financial reporting by providing fund balance categories and classifications that will be more easily understood. Elimination of the reserved component of fund balance in favor of a restricted classification will enhance the consistency between information reported in the government-wide statements and information in the governmental fund financial statements and avoid confusion about the relationship between reserved fund balance and restricted net assets. The fund balance classification approach in this Statement will require governments to classify amounts consistently, regardless of the fund type or column in which they are presented. As a result, an amount cannot be classified as restricted in one fund but unrestricted in another.
Appendix 1: Citations from GASB and FASB on the Terms “Restricted” and “Reserved”

The fund balance disclosures will give users information necessary to understand the processes under which constraints are imposed upon the use of resources and how those constraints may be modified or eliminated. The clarifications of the governmental fund type definitions will reduce uncertainty about which resources can or should be reported in the respective fund types.

B. Citations from FASB
Example citations from the FASB Master Glossary appear below

“Restricted”
The term “restriction” is used by FASB to refer contractual or government provisions, and also to donor-imposed restrictions for non-profit organizations.

Restriction
A contractual or governmental provision that prohibits sale (or substantive sale by using derivatives or other means to effectively terminate the risk of future changes in the share price) of an equity instrument for a specified period of time.

Donor-Imposed Restriction
A donor stipulation that specifies a use for a contributed asset that is more specific than broad limits resulting from the following:
  a. The nature of the not-for-profit entity (NFP)
  b. The environment in which it operates
  c. The purposes specified in its articles of incorporation or bylaws or comparable documents for an unincorporated association.

A donor-imposed restriction on an NFP's use of the asset contributed may be temporary or permanent. Some donor-imposed restrictions impose limits that are permanent, for example, stipulating that resources be invested in perpetuity (not used up). Others are temporary, for example, stipulating that resources may be used only after a specified date, for particular programs or services, or to acquire buildings and equipment.

Donor- Restricted Endowment Fund
An endowment fund that is created by a donor stipulation requiring investment of the gift in perpetuity or for a specified term. Some donors may require that a portion of income, gains, or both be added to the gift and invested subject to similar restrictions. (See Endowment Fund.)

Note: The following definition is pending content; see Transition Guidance in 958-205-65-1.

An endowment fund that is created by a donor stipulation requiring investment of the gift in perpetuity or for a specified term. Some donors may require that a portion of
Appendix 1: Citations from GASB and FASB on the Terms “Restricted” and “Reserved”

income, gains, or both be added to the gift and invested subject to similar restrictions. The term does not include a Board-Designated Endowment Fund. See Endowment Fund.

“Reserve”
The term “reserve” is generally used by FASB to refer to cash reserves and also for oil and gas reserves.

Claims Stabilization Reserve

The claims stabilization reserve is established through deductions from the policy account balance through the cost of insurance charge and is sometimes held in a general account (that is, an account that is intermingled with the insurance entity’s assets) as opposed to a legally segregated account (sometimes referred to as a separate account). The amounts are accumulated in this account until a death benefit is paid. The death benefit represents a combination of the policy account balance and the claims stabilization reserve based on the contractual terms. The cost of insurance is recalculated periodically based on actual experience of the insured class. Annually, the claims stabilization reserve is reviewed and an experience credit may be issued back to the policyholder if the experience has been favorable. The balance in the claims stabilization reserve will be reviewed annually and to the extent the balance is greater than the forecasted or expected amount, an experience refund would get credited to the entity’s policy account balance. An entity’s claims stabilization reserve will generally be realized through the collection of death benefits or an experience refund that gets credited to the policyholder’s policy account balance or upon surrender of the group policy. A claims stabilization reserve is included in a policy as a mechanism for the policyholder and the insurance entity to share in the mortality risk, which in this case is the risk that the deaths will occur sooner than originally expected. Absent a claims stabilization reserve, the policyholder’s net cost of insurance would typically be higher than in a policy without a claims stabilization reserve. The claims stabilization reserve is sometimes referred to as a mortality reserve or a mortality retention reserve. (Note: The use of this glossary term is not consistent among legal contracts. When determining the applicability of this term, the economic substance of the item shall be taken into consideration.)

Proved Developed Oil and Gas Reserves

Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as proved developed reserves only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.
Appendix 1: Citations from GASB and FASB on the Terms “Restricted” and “Reserved”

**Note:** The following definition is Pending Content; see Transition Guidance in 932-10-65-1.

Proved developed oil and gas reserves are proved reserves that can be expected to be recovered:

a. Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared with the cost of a new well

b. Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.
Appendix 2: Public comments received in 2004 on using the concept of “significant” as a filter to reduce the number of funds to be reported on individually.

The question of how to identify the most important earmarked funds was explored during the original exposure period for SFFAS 27. The exposure draft (ED) for SFFAS 27 initially introduced a new concept of “significant” earmarked funds, and Question #5 of the ED asked for public comments on this issue.

Below is the text of the relevant Question (Question #5) on identifying “significant” earmarked funds.

**Text of Question #5 from SFFAS 27 ED (2004):**

Q5. The proposed accounting standard uses the term “significant” in paragraphs 20 and 26 to describe the earmarked funds for which a reporting entity should provide additional information. In Board discussions various alternatives were considered for defining “significant.” One alternative considered was to define “significant” on a strictly financial basis, such as a percentage of the reporting entity’s revenues or cumulative results of operations. Another alternative the Board considered was whether the term “significant” could be defined as the largest three or four earmarked funds of a reporting entity, as defined by some financial measure such as revenue. The Board also discussed using qualitative factors as criteria, such as: whether an earmarked fund is material to a Government program; whether it is politically sensitive or controversial; whether it is accumulating large balances, or whether the information provided in the financial statements would be the sole source of financial information for the public. The consensus of the Board was that the preparer should be allowed to decide whether or not an earmarked fund is “significant”. Do you agree, or do you believe that the standard should provide additional guidance defining the term “significant”? If you believe that further guidance is needed, please explain what criteria you would use to define “significant.”
Appendix 2: Public comments received in 2004 on using the concept of “significant” as a filter to reduce the number of funds to be reported on individually

Summary of Written Responses

<table>
<thead>
<tr>
<th>Source</th>
<th>Agree</th>
<th>Disagree</th>
<th>No Comment/Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1. NLRB, OIG, Garay</td>
<td></td>
<td></td>
<td>No comment.</td>
</tr>
<tr>
<td>#2. Steinberg</td>
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<td>X</td>
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<tr>
<td>#3. HUD, OCFO, White</td>
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<tr>
<td>#4. Library of Congress, OCFO, Miller</td>
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<tr>
<td>#5. DOD, OCFO, Boutelle</td>
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<td>X</td>
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<tr>
<td>#6. Commerce, OCFO, Taylor</td>
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<td>X</td>
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<tr>
<td>#7. AGA FNSB, Murray</td>
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<td>X</td>
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<td>#8. SSA, OCFO, Sopper</td>
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<td>#9. WAPA, OCFO, Erickson</td>
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<td>No comment.</td>
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<td>#10. US SGL Board, Yuran</td>
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<td>#11. Treasury, OCFO, Lingebach</td>
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<td>#12. HHS, OCFO, Ann Burnell</td>
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<td>#13. KPMG, Dan Kovlak</td>
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<td>#15. Cotton &amp; Co., Cotton</td>
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<td>No comment.</td>
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<tr>
<td>#16. Dept. of the Interior, Carey</td>
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<td>X</td>
<td></td>
</tr>
</tbody>
</table>

Detailed Responses:

Six respondents (Department of Defense, the AGA FMSB, the Social Security Administration, the USSGL Board, the Department of the Treasury, the Dept. of Health and Human Services, and the Department of the Interior) requested clarification of the term “significant” or provided recommendations for excluding immaterial earmarked funds from disaggregated disclosure.

Department of Defense:
Yes, we agree that the standard should provide additional guidance defining the term “significant.” Significant needs to be a percentage of an entity’s revenue or assets as Board previously discussed.

AGA FMSB:
Yes, we agree that the preparer should be allowed to use judgment in deciding whether an earmarked fund is significant for purposes of determining whether additional information is required. The FASAB may also want to consider whether the GASB’s Statement 34 for guidance, which outlines certain financial criteria for “major” funds, yet also provides for additional reporting based upon non-financial factors.

Social Security Administration:
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SSA recommends that the FASAB clarify its position on the issue of "significance". SSA believes that the preparer may be allowed to decide whether or not an earmarked fund or financing source is "significant". However, we believe that this definition should not be the sole criterion upon which to make this judgmental decision. SSA believes that the preparer must keep in mind that while existing accounting principles and auditing standards require professional judgment on the part of the accountant or auditor to determine whether an item is considered "significant", this is not the sole criterion to use. The existing accounting principles and auditing standards also require an item to be considered "significant" if the inclusion or exclusion of the item in question may influence the reader of the financial statements to change his or her decision with respect to the information included in the financial statements. If it does, then the item is considered "significant". If it does not, then the item is not considered "significant".

USSGL Board:
Please define the term “significant earmarked funds.” What would be the impact on the Governmentwide-level reporting if the component entity can decide whether they are significant or not.

Department of the Treasury:
It would be helpful if the Board included a definition of “materiality” in future accounting standards. It is a well established and useful private sector concept which also seems to apply to the public sector.

…The standard should provide additional guidance defining the term “significant.”

Department of Health and Human Services:
We recommend that guidance to determine the “significance” should be provided in the standard with flexibility for the entities to determine the significance for each entity’s financial reporting.

Department of the Interior

Overall, the term significant is good. It would be helpful to add an example (non-binding) threshold to provide guidance and clarity. For example, “The reporting applies to significant funds. In general, a fund might be considered significant to an agency if its assets are greater than xx% of total agency assets.”

Board Decision (2004):

The Board discussed this issue at the April 2004 Board meeting, and:

- agreed to delete the term “significant earmarked funds” from the standard, and
- approved additional wording with examples of quantitative and qualitative factors to be considered in selecting individual earmarked funds for disaggregated disclosure.
Appendix 2: Public comments received in 2004 on using the concept of “significant” as a filter to reduce the number of funds to be reported on individually

Per Board’s discussion at the April 2004 meeting, the word “significant” was deleted, and examples of quantitative and qualitative factors to consider were added.

Final Text of SFFAS 27 (for earmarked funds requiring individual disclosure):

[24] Selecting earmarked funds to be presented individually requires judgment. The preparer should consider both quantitative and qualitative criteria. Acceptable criteria include but are not limited to: quantitative factors such as the percentage of the reporting entity’s earmarked revenues or cumulative results of operations from earmarked funds; and qualitative factors such as whether an earmarked fund is of immediate concern to constituents of the fund, whether it is politically sensitive or controversial, whether it is accumulating large balances, or whether the information provided in the financial statements would be the primary source of financial information for the public.