

From: Krabbe, Carla

Sent: Tuesday, August 16, 2011 11:56 AM

To: Earmarked

Cc: Molander, Chris; Dushel, Annette; Kolb, Kristen; Silvestri, Mark; Hull, Stephen

Subject: FASAB Requests Comments Regarding Amendments to SFFAS 27--
Earmarked Funds - SSA COMMENTS

Wendy,

Attached are SSA's comments on the Exposure Draft *Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27*. Thank you for the opportunity to provide input. Staff questions can be directed to Annette Dushel at 410-965-0073.

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Q1. The Board is proposing amendments to state explicitly that the source of the “Specifically identified revenues or other financing sources” in paragraph 11 of SFFAS 27 must be external to the federal government, and to clarify the distinction between earmarked funds and the general fund. This issue is discussed in paragraphs A11 - A12 of the Basis for Conclusions. The proposed amendment to paragraph 11.1 of SFFAS 27 can be found in paragraph 6 of this exposure draft. Do you agree or disagree with the proposed amendment? Please provide the rationale for your answer.

SSA’s response:

SSA agrees with the proposal to amend the definition. We believe that this amendment will clarify the distinction between funds required by statute to be used for designated activities and the Government’s general revenues.

Q2. The Board believes that funds established to account for pensions, other retirement benefits, other postemployment benefits, and other employee benefits provided to federal employees (civilian and military) should not be reported as earmarked funds and is proposing that such funds should be excluded from the category of earmarked funds. This issue is discussed in the Basis for Conclusions, paragraphs A15 - A16. The proposed amendment to paragraph 18 of SFFAS 27 can be found in paragraph 10 of this exposure draft. Do you agree or disagree with this exclusion? Please provide the rationale for your answer.

SSA’s response:

SSA agrees. The amendment will eliminate the impact of the large negative net position that offsets the generally positive net position of other funds received from dedicated collections on the government’s financial report.

Q3. The Board is proposing that component entities would have the option to continue to use the existing format of separate lines or columns to display information on earmarked funds on the face of the balance sheet and statement of changes in net position, or to use an alternative format. Some members question the need for component entities to display information on earmarked funds on the face of the balance sheet and statement of changes in net position. The Board is also proposing that the component entity level reporting should be at a sufficient level of detail to support the U.S. government-wide financial statements. The discussion of this issue may be found in the Basis for Conclusions, paragraphs A17 - A20 and the proposed amendments in paragraph 11. Illustrative financial statements may be found in Appendix F.

(a) Do you agree or disagree with the proposal to provide an option for an alternative format for component entity reporting of earmarked funds?

Please provide the rationale for your answer.

SSA's response:

SSA agrees with the proposal. While we don't believe the alternative presentation is the best approach, as long as entities are reporting the information required for the government-wide statements, we believe there should be flexibility in the reporting methods used.

SSA will continue using the current format for its financial statements and is primarily concerned with maintaining our ability to use this format.

(b) Do you agree or disagree with the view of some of the members that component entities should not be required to display information on earmarked funds on the face of the balance sheet and statement of changes in net position and that disclosure in the notes is sufficient? Please provide the rationale for your answer.

SSA's response:

SSA agrees with this proposal as long as the information provided in the note disclosure meets the requirements of the government-wide financial report. Again, SSA will continue with the current format of breaking out the information on the face of the Balance Sheet and Statement of Changes in Net Positions. We believe that showing the information on the statements provides quick access to the amounts reported as earmarked/dedicated and the detail can be seen and reconciled in the footnote.

(c) Do you agree or disagree with the proposal that the component entity level reporting should be in sufficient detail to fully support the governmentwide reporting requirements? Please provide the rationale for your answer.

SSA's response:

SSA agrees with this proposal. The government-wide statements report the breakout of Earmarked and Non-Earmarked funds and therefore entities should provide the breakout of their balances for the government's financial report.

Q4. The Board proposes to rescind potentially confusing guidance on eliminations for component entities and instead provide that combined or consolidated amounts are permitted and that amounts be labeled accordingly. The discussion of this issue may be found in the Basis for Conclusions, paragraphs A21 - A25 and the proposed amendments in paragraphs 11 - 12. Do you agree or disagree with this proposed amendment? Please provide the rationale for your answer.

SSA's response:

SSA agrees that removing the confusing language would be helpful. However, we believe that the proposed guidance is still slightly confusing. It discusses the removal of earmarked disclosure eliminations and the replacement of this information with labeling. How would agencies label this information on the statements/note disclosure? We strongly suggest that the final standard provide examples on how an entity would label whether amounts are consolidated or combined. The exposure draft focuses on the eliminations between Net Position activities, but SSA displays earmarked eliminations on the balance sheet in our disclosure (Note 24).

Q5. The Board proposes to replace the term "earmarked funds" with "funds from dedicated collections." This issue is addressed in the Basis for Conclusions, paragraphs A6 - A8 and the proposed amendments in paragraphs 4 - 5. To facilitate review, Attachment B displays the text of SFFAS 27 with proposed amendments, including the new term. Do you agree or disagree with the Board's proposal to rename "earmarked funds" and make conforming grammatical changes in SFFAS 27? Please provide the rationale for your answer.

SSA's response:

SSA agrees that changing the terminology from "earmarked funds" to "funds from dedicated collections" will eliminate the confusion of what is meant by the term "earmarked."

Q6. The following question applies to funds with a combination of (a) revenues and other financing sources that meet the criteria in paragraph 11 of SFFAS 27 ("non-federal") and (b) general fund appropriations ("federal"). The Board proposes that to be classified as an earmarked fund, a fund should be predominantly funded by revenues from non-federal sources or have non-federal revenues supporting the fund that are material to the reporting entity. The Board has also proposed guidance for situations where the proportion of funding sources may change from year to year. This issue is discussed in the Basis for

Conclusions, paragraphs A13 - A14. The proposed revised guidance is in paragraph 7. Do you agree or disagree with the proposed guidance on funds with such sources of funding? Please provide the rationale for your answer.

SSA's response:

SSA agrees with the definition change. This change will allow for easier determinations of earmarked and non-earmarked fund classifications.

Q7. The Board is proposing that the amendments to SFFAS 27 have an effective date of periods beginning after September 30, 2011. Do you agree or disagree with this effective date? Please provide the rationale for your answer.

SSA's response:

SSA agrees with an effective date to begin after September 30, 2011. This will avoid possible presentation changes in the last quarter of the fiscal year and allow for consistency in FY 2011 financial reporting. It will also prevent possible presentation issues with the auditors.